

**THE SOCIAL FUND, THE LOCAL DEVELOPMENT
FUND, AND DECENTRALIZATION:
THE CASE OF CAMBODIA**

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Executive Summary

1. **Background.** Cambodia has emerged from two decades of civil war with a decimated human resource base and destroyed economic, political, and social institutions. It is one of the poorest countries in the world with a per capita income of \$280. The rural areas account for about 80 percent of the country's total population but some 90 percent of the poor reside in them. The incidence of poverty is higher in rural areas which is 40 percent compared to 11 percent in Phnom Penh. The country's Socio-Economic Development Plan (SEDP), 1996-2000, focuses on poverty alleviation particularly, in the rural areas.

2. The country has a highly centralized form of government that is reflected in the administrative and fiscal relationships between the central and local governments. Local authorities from the provincial governors down to the village chiefs are appointed and under the supervision of the Ministry of Interior. From 1994-1996, provincial expenditures accounted for only 20 percent of the national government own revenues. Funds from ODA contributions and NGOs substitute for government financing for many local development activities. In 1996, they accounted for 77 percent of provincial public expenditures. The pattern of distribution across provinces indicates a preference for better-off areas. In per capita terms, rural areas with more than three-fourths of the country's population received slightly more than half of the combined sources from all development funds.¹ In contrast, Phnom Penh with only 7.5 percent of the nation's population obtained a disproportionate share of more than two-fifths of all development funds.

3. Cambodia's legal and policy framework for decentralization is still in its incipient stage. The 1998 Provincial Budget Management Law restored to local governments some of the powers and responsibilities that were taken away from them in 1993. Under this new law, certain responsibilities for local service provision and local administration as well as some revenues from tax and non-tax sources, have been devolved to the provinces. The revenue sources transferred to the provinces account for a relatively small proportion of total government revenues: it is less than 2 percent of tax revenues and about 1.5 percent of total revenues.² While the devolved revenues are marginal relative to the expenditure responsibilities assigned to local governments, they open a window of opportunity for advancing fiscal decentralization.

4. Two laws on commune election and commune administration that are currently being drafted by the Ministry of Interior signal significant strides in advancing democratic decentralization in Cambodia. Commune elections proposed for late 2000 are expected to create genuine local governments that are directly elected by the people. Under the proposed Commune Administration Law, the commune councils will be given

¹ National government plus ODA and NGO

² World Bank, *Cambodia: Public Expenditure Review* (PER), January, 1999.

formal responsibility to define the development needs of their communities. They will also be guaranteed access to regular financing from tax sources and to transfers from the national budget.

5. Several donor-financed projects are currently being implemented in support of rural development. Two of these programs are focused on financing small-scale infrastructure projects, namely, the Social Fund of the Kingdom of Cambodia (SFKC) and the Local Development Fund (LDF) which is executed through the *Seila/CARERE2* project. The SFKC provides rapid and effective financing for small-scale community based social and economic infrastructure projects nationwide. It has been financed by the World Bank through IDA credits of US\$20 million (1995-1998) and US\$25 million (1999-2000) for SF1 and SF2 respectively.

6. The LDF focuses its assistance to local governments in the form of technical and financial support for the provision of small-scale infrastructure projects which are generally in the nature of public goods. The LDF project operates in the five *Seila/CARERE* provinces. For 1997-2000, funding for the LDF is estimated at US\$8.0 million. Its principal funding sources include the United Nations Capital Development Fund (UNCDF) and the Swedish government through the Swedish International Development Agency. Funds from the SFKC and the LDF are not included in the national government's budget and are provided as grants to local communities and local governments, respectively.

7. **Rationale and Methodology.** The aims of this comparative study are as follows: a) to examine the interaction of the SFKC and the LDF with local governments and community groups, b) to identify how these instruments enhance or impede decentralization, and c) to provide design inputs to the SFKC and the LDF.

8. The LDF was chosen as a comparator for the SFKC for two main reasons: First, both the SFKC and the LDF use demand-driven financing mechanisms for small-scale infrastructure projects. Second, the objects of their financing are similar: both fund simple infrastructure projects such as rural roads, culverts, water supply, minor irrigation systems, and school buildings. The fundamental difference between the two is in the mechanism by which demand is generated and financing is accessed. On one hand, the SFKC solicits applications from local communities and responds to community preferences by providing financing from the central level. On the other hand, the LDF transfers financing and decision-making to lower levels of government and, in turn, local governments respond to local preferences through an institutionalized process of local level planning in which local plans are used as basis for accessing financing.

9. The study was undertaken for a period of approximately three weeks. It is based on semi-structured interviews and field visits in two provinces, Pursat and Battambang and in Phnom Penh. Within the two provinces, visits were made to several districts, communes, and villages. The two provinces were selected for two reasons: a) to gain more depth of understanding of the SFKC and the LDF and b) to allow for comparison of operations between these two projects. The two provinces also provide a contrast in

terms of social capital; with Battambang province having a denser social capital.³ The interviews were done with a cross-section of respondents: villagers; local authorities; representatives from central government agencies; donor agencies and NGOs; key officers and staff of the *Seila*/CARERE2 project and the SFKC; and consultants who have been involved in evaluating these two projects (See list in Annex 1). The interviews were complemented by field visits and a review of government and project documents. This study also benefited from my ongoing research on decentralization in Cambodia.

10. **Findings.** While there are common elements between the SFKC and the LDF, their differences in mandates set them apart in terms of the level and degree of their interactions with local governments, line ministries, and local institutions. These interactions, in turn, have influenced how local preferences have been determined, and how investment decisions have been made and implemented, and whether and how sustainability and accountability have been improved.

11. The contribution of the SFKC to decentralization has been ambiguous, especially during its first phase (SF1). In SF1, the SFKC operated within a rehabilitation framework and its primary concern was the rapid delivery of outputs. Thus, it was not mindful of incorporating participation in the project cycle nor building local capacities. With the exception of application and procurement, which were designated to the applicant, and the implementation to the contractor, the SFKC dominated the process through control over ranking, appraisal, monitoring, and fund disbursement. It also inadvertently strengthened the dominance of contractors in the implementation of projects, sometimes at the expense of local communities. In some ways, bypassed local institutions and local governments were weakened by the process. Under SF1, interaction with local governments and line ministries was nominal, the sustainability of subprojects was limited, capacity building to local counterparts was non-existent, and accountability was not fostered.

12. However, under the second phase (SF2), which started in mid-1999, the inclusion of a sustainability program indicates that SFKC now appears to be moving in a direction that supports decentralization. Under SF2, the inclusion of a sustainability component has provided possibilities for effective local community involvement, collaboration with other donor-financed projects and NGOs through co-financing agreements, and capacity building for local communities. However, there seems to be continued reluctance and resistance on the part of the SFKC to strengthen institutional collaboration with local governments and line ministries.

13. A key strategy in the sustainability program of SF2 is the proposed institutional collaboration with other donor agencies and NGOs. Partnerships between SFKC and other donor agencies are being established through Memoranda of Understanding (MoUs) executed between the SFKC and its partner agencies. Each partner agency is expected to provide an organizational structure and local machinery to identify subprojects in a participatory manner and to ensure sustainable use and maintenance of

³ Rough indicator used is the number of NGOs. Battambang has approximately 82 NGOs compared to 10 in Pursat province. Intra-provincial visits provide a range of contrasts in social capital conditions.

these subprojects. The SFKC, in turn, will provide financing for subprojects identified through the MoUs and will maintain control of their appraisal, approval, monitoring, and fund disbursement.

14. The contribution of the LDF to decentralization is clear. The LDF works through the rural development structures of all levels, from the province down to the commune and village. In the five provinces where the *Seila*/CARERE project operates, the LDF has demonstrated that local governments can be made to work by responding to the demands of their constituents through consultation and negotiation, despite initial constraints in local capacities. Part of the explanation is that the *Seila*/CARERE project has provided both intensive capacity building to its local counterparts as well as financial support.

15. Linking decentralized planning to financing fosters greater interaction between local governments and deconcentrated line ministries. This linkage has been made possible by providing decentralized funds to the province which is managed by the Provincial Rural Development Committee (PRDC) through the provincial governor. Access to these funds requires coordination and consultation between local authorities and provincial line departments at various stages of planning, budgeting, and implementation. Participation of villagers in decision-making and requirement of local contributions have enhanced ownership and sustainability of projects. The LDF also fosters accountability by drawing clear lines of authority and responsibility in decision-making and resource allocation in all levels of the rural development structures. In recent years, there have been deliberate attempts at including other development actors including NGOs in the local planning process and private contractors in implementation. The LDF approach, however, requires full-scale mobilization of the rural development structures to manage the planning and financing systems and also a substantial infusion of funds for capacity building and to cover administrative overhead. The overarching question, therefore, is whether and how the LDF approach can be mainstreamed and adopted by the national government nationwide.

Below are some of the key points of comparison between the SFKC and the LDF:

16. **Mechanisms for Planning.** The SFKC responds directly to local preferences through applications submitted by local communities. In most cases, however, it has short-circuited the process by dealing with only a single individual applicant in the entire project cycle. Nominally, line ministries have been consulted by the SFKC by securing their clearances on a no-objection basis before subprojects are appraised. Moreover, subprojects have been indirectly checked against local government and line ministry priorities by requesting applicants to secure signatures from these entities.

17. Under the LDF, the preparation of plans and their financing have been transferred to local governments through their Village Development Committees (VDCs) and Commune Development Committees (CDCs). At the beginning of each year, a block grant is allocated from the province through the PRDC to the communes through the CDCs. Villagers, together with their VDCs and with facilitation from provincial and district teams, prepare multi-year village future action plans which are then consolidated

into commune development plans. Both plans form the basis for accessing allocation from the commune grant. Local plans are integrated into plans of line departments at the district level. NGOs have also been participating, mostly as observers, in the district integration meetings in the last two years.

18. **Targeting.** The SFKC allocates funds to provinces according to their population, adjusted for poverty levels and to prioritized sectors which are ranked in advance by the SFKC. The SFKC provides funding for worse-off and hard-to-reach areas that otherwise would not get funding from other sources. Both sector and provincial allocations, however, do not take account of intra-provincial disparities. Under the LDF, funds are limited to the five *Seila*/CARERE provinces, and to target communes and villages. The provincial and commune allocations are based on non-poverty related criteria. The size of the provincial allocation depends on the existence of CDCs and VDCs; this criterion generally favors better-off provinces. Target communes, on the other hand, have been selected based on security and accessibility.

19. **Sustainability.** Overall, subprojects funded under SF1 have often not been maintained because of lack of participation and ownership by local communities. However, some impressionistic evidence indicates that, despite lack of participation by communities in decision-making, communities do maintain projects if they respond to their needs and produce benefits. This is especially the case for wells and schools. However, even when communities have participated in decision-making but projects, such as badly built schools or non-functioning wells, do not provide expected benefits or satisfactory outputs, villagers subsequently withdraw from further contributions or involvement.

20. Many LDF projects have been maintained, despite lack of follow-up, because they have produced benefits. Villagers have participated in their selection and provided local contributions, and thus, have developed a sense of ownership towards the projects. For public goods like roads, maintenance subcommittee members, supported by VDC members and village elders, have been able to mobilize villagers to maintain the roads and to undertake minor repairs. For semi-private goods, households next to wells have taken the responsibility for maintaining them. In a few cases, subcommittees have been able to collect fees for minor repairs from a community of users. While maintenance subcommittees are routinely formed for LDF projects, many are not operational or are underperforming. So far, there has been no systematic training nor capacity building provided to maintenance subcommittees. The subcommittees do not have maintenance plans or regular maintenance funds.

21. **Accountability.** The SFKC seems to have succeeded in shielding itself from politicization of the project selection process. The downside is that it has become less responsive to demands from its external environment. Its inability to foster institutional linkages with local governments and line ministries limits the flow of information to and from these institutions, and makes the SFKC vulnerable to perceptions and claims of lack of transparency in its operations. Its inclination to deal with single individual applicants for the entire project cycles and the intermittent presence of its own personnel

at project sites reduces SFKC's opportunity for interaction and dialogue with local communities. Based on impressionistic reports, accountability does not seem to have been fostered between the SFKC and local governments, and between the SFKC and local communities, or between local governments and local communities.

22. Participation in the local planning process has increased awareness among villagers that they can make demands on local authorities and put pressure on them to respond to their demands. By working through established structures, clear lines of authority and responsibility in decision-making and resource allocation have been established which inform communities and lower level authorities about who should be held accountable for certain actions or decisions. Whether villagers act on this knowledge is difficult to ascertain. One illustration that they sometimes use this information is an incident in Pursat province where villagers voted out some VDC members who they thought were not performing well. The local planning process has also created avenues for VDCs and CDCs to express their views or dissent, either through the provincial and district support teams, in VDC and CDC meetings, or in provincial workshops such as in the local planning process review.

23. **Efficiency.** Below are some rough measures of efficiency indicating that there are both convergences and divergences in the overall performance of the SFKC and the LDF.

Over-all technical quality: Satisfactory, for both the SFKC and the LDF.

Cost-effectiveness: The SFKC is most cost effective in projects for drilled wells and health centers; LDF is most cost-effective in culverts and latrines.

Approval process: Estimated processing time from planning to project approval is 6-12 months for the SFKC; 5-6 months for the LDF.

Overhead costs: Administration and supervision costs run to 8 percent of the total investment costs and 2.5 percent of project cost, respectively, for the SFKC; and to 30 percent of total investment costs and 3 percent of the project cost, respectively, for the LDF.

Output and value: The SFKC has generated 1,431 projects, valued at \$17.1 million (as of 1998). The LDF has implemented 1,756 projects, valued at \$3.7 million (as of September, 1999).

24. **Conclusions.** Lessons emerging from this comparative study point to the need for development agencies to work through established rural development structures, line ministries and other local institutions such as NGOs in order to ensure accountability and sustainability. Linking planning to financing fosters greater interaction between local governments and deconcentrated line ministries and also facilitate greater allocative efficiency. While local plans are important instruments in articulating and prioritizing local preferences, institutionalizing the process can only be achieved only as long as regular financing is allocated for their preparation and implementation and provided they

are utilized by other funding agencies and the central government in making investment decisions. The key to ensuring that such decentralized planning, financing, and implementation work, lies in providing both financial and intensive capacity building to local counterparts.

25. The SFKC could improve the sustainability of its projects by involving local governments, line ministries, and local institutions in the project cycle. It is crucial that participation of these actors is integrated into an institutionally coherent framework rather than attempted on an ad-hoc basis or through patchwork initiatives. Such involvement is crucial for building capacity and to prevent opportunistic behavior. For instance, involvement of partner agencies and local institutions should be required in the monitoring of subprojects identified through MoUs to ensure better technical quality of project work. There are variations in capacities across provinces and among local communities and these differences should inform the level and degree of capacity building to be provided.

26. The LDF, on the other hand, will have to further refine and simplify its procedures to generate effective participation and to ensure that capacity of these local institutions are developed according to their potentials and their evolving functions and responsibilities. Further simplification of the planning process would have positive implications in reducing administration costs, enhance the learning experiences of the rural development structures, and increase possibilities for the LDF approach to be mainstreamed throughout the rest of the country.

I. Decentralization and Local Development

A. Historical Context

1.1 Cambodia has had no longstanding experience with decentralization. A fiscal reform introduced in 1985 decentralized budget control and administration to various levels of government but it was short-lived. Under this reform, there were separate budgets for central, ministerial, and provincial levels.⁴ Provinces and districts were allowed to retain revenues from their own public enterprises. This gave them considerable discretion over budget execution and eventually led to run-away inflation and severe macroeconomic imbalances.

1.2 The Organic Budget Law of 1993 re-centralized budget control and supervision to the Ministry of Economy and Finance (MEF) and curtailed the fiscal autonomy of provinces. Revenues collected by provinces, including those from their public enterprises, are centrally pooled and allocated under the strict supervision of the MEF. Under this law, provinces merely acted as executing agencies for expenditure programs delegated to them by central ministries. The highly centralized nature of public finances is reflected in the composition and regional distribution of public spending. For 1994-1996, the provincial share of expenditures from the national government's own revenues was only about 20 percent, of which about 97 percent is for current expenditures.⁵

1.3 Donor agencies have driven the decentralization process in Cambodia. One of the major donor initiatives on decentralization has been the *Seila* program which is a joint undertaking between the Royal Government of Cambodia (RGC) and the United Nations Development Programme (UNDP) and is being administered through CAREERE2 in early 1996. The *Seila*/CAREERE2 program is a policy experiment on decentralization with broad-based development objectives aimed primarily at poverty alleviation in the rural areas. The principal objective of the *Seila* program is to formulate a model for decentralized systems of planning, financing, and management for which the national government could take ownership of and responsibility for at the end of year 2000 in order to assure its adaptation and replication in other provinces.

1.4 **Policy on Decentralization.** The RGC's Five-Year Socio-Economic Development Plan (SEDP), 1996-2000, provides a general framework for a decentralized and participatory approach to rural development. A key component of this approach is the development of local institutions at provincial and local levels to formulate and implement coherent local development programs and activities. Decision No. 136 of December 1994 as amended in 1999 established a new rural development and management structure consisting of successive levels.⁶ These include the Provincial

⁴ The 1993 constitution divides the country's territory into provinces and municipalities. Provinces are divided into districts (*srok*), districts into communes (*khum*), and communes into villages (*khum*).

⁵ World Bank, *Cambodia: Public Expenditure Review* (PER). January 1999.

⁶ Decision No. 2 of 1999, eliminated the District Development Committee from the Rural Development Structure. It also specified the coordinating role of the Ministry of Rural Development and its provincial

Rural Development Committee (PRDC), the Commune Rural Development Committee (CRDC), and the Village Development Committee (VDC). These committees are composed of appointed local authorities and deconcentrated line ministries, with the exception of VDCs whose members are directly elected by the people.

1.5 National government support for decentralization has gained momentum only in the last two years of 1997-1998 as indicated by several policy pronouncements and by increased institutional support. In his speech to the National Assembly on November 30, 1998 outlining the platform of the new coalition government, Prime Minister Hun Sen put emphasis on administrative reforms including the extension of autonomous management to some provinces and cities. The *Seila* Task Force (STF), whose establishment had been held in abeyance due to some reservations from the national government, was formally endorsed in December 1997. The STF is an inter-ministerial body providing policy oversight and guidance to the *Seila*/CARERE2 project. A Council for Administrative Reform was established in June 1999 charged with coordinating policy reform initiatives on decentralization, including the forthcoming commune elections. In 1998, the national government transferred funds to the *Seila* provinces in the amount of 800 million riels (US\$250,000) to fund projects prioritized by communes and villages as a symbolic gesture of its support to the *Seila* project.

1.6 Cambodia's legal and policy framework for decentralization is still in its incipient stage. The RGC has passed a number of laws to support several decentralization initiatives. The 1998 Provincial Budget and Management Law restored to local governments some of the powers that were taken away from them in 1993. Under this new law, certain responsibilities for local service provision and local administration as well as some revenues from tax and non-tax sources have been devolved to the provinces.

1.7 Two laws on commune election and commune administration that are currently being drafted by the Ministry of Interior signal significant strides in advancing democratic decentralization in Cambodia. The proposed commune elections in late 2000 are expected to create genuine local governments that are directly elected by the people. Under the proposed Commune Administration Law, the commune councils would be given formal responsibility to define the development needs of their communities. They would also be guaranteed access to regular finance from tax sources and to transfers from the national budget.

1.8 At the policy level, these laws would have broad-based implications on how functions and responsibilities for both resource allocation and decision-making would be appropriated among different levels of government, namely, central, provincial, and commune. Currently, at the operational level, communes have generally been bypassed by donors and NGOs who work directly with VDCs or existing village organizations such as pagoda committees.⁷ Reconfiguring these existing institutional arrangements to

branches in all levels of the RDS. In practice, the Provincial Department of Planning is undertaking coordinative functions at the RDS. Subsequently, a sub-decree on the structure of the PRDC has been passed to align with Decision No. 2.

⁷ With the exception of the *Seila*/CARERE2 project and PRASAC2.

make them cohere with the expected mandates from the communes will be a major challenge for the framers of the commune laws.

1.9 Functions and responsibilities of subnational governments. Local authorities from the provincial governor down to the village chiefs are appointed and under the direct supervision of the Ministry of Interior. They carry out instructions from the center that generally relate to routine activities like security matters and information gathering. Deconcentrated line ministries continue to operate in a highly centralized manner following the vertical lines of authority of reporting to and receiving instructions directly from their central ministries. Deconcentrated line ministries are operationally ineffectual partly due to lack of clear mandates and partly because of lack of technical and financial guidance and supervision from the central ministries.

1.10 Relations between local authorities and deconcentrated line ministries are arbitrary and vary depending on how each perceives the institutional strength of the other. In the *Seila* provinces, for instance, local authorities and line departments have established close coordination and collaboration in the formulation and implementation of provincial and local plans. This has happened primarily because the PRDC/Executive Committee (Excom) through the provincial governor manages decentralized funds. Access to these funds requires coordination and consultation between local authorities and line departments at various stages of planning, budgeting, and implementation.

B. Local Planning

1.11 Local government involvement in development planning has been minimal, partly because there is no local capacity to prepare plans and partly due to local government's lack of financial resources to implement any plans. Both the Ministry of Rural Development (MRD) and the Ministry of Planning (MoP), which are respectively mandated to coordinate planning activities at the local and provincial levels lack the institutional capacity and resources to assist local governments in formulating development plans. Provincial planning has been dormant since 1995 when provincial development plans were required by the national government to provide inputs to the SEDP. These plans were merely aggregations of provincial sector plans and were prepared without consultation with lower levels of government. Since then, these plans have mostly not been implemented, nor updated.

1.12 Local planning has been initiated primarily by donor agencies and NGOs. While there is no single local development planning approach in Cambodia, local planning is generally village-based and sector-focused, using participatory rural appraisal (PRA) as a planning instrument to collect data for project formulation and to draw participation from villagers. Most of the donor-financed projects involve planning of projects that have multi-sector components (GTZ/PDP, PRASAC/EU), that target special groups, such as women and children (CASD/UNICEF) and that formulate multi-sector, multi-level, and multi-year development plans (*Seila*/CARERE2). The *Seila*/CARERE2 approach has by far the most ambitious rural development planning process in terms of both scale and scope (more discussion on this under the LDF section).

1.13 Overall, capacity in local planning exists in varying levels. It is mostly concentrated in areas where there are donor -financed projects. With the passage of the 1998 Provincial Budget and Management Law and a more recent subdecree requiring provincial governments to present their plans to MoI and MEF during budget deliberations, there has been increasing pressure for the provinces to gain competency in preparing local plans. The success of institutionalizing local planning in Cambodia, however, depends on whether the central government and donor agencies intend to use these plans for allocating investment funds.

C. Local Government Finances⁸

1.14 **Provincial Revenues and Expenditures.** In the past, provincial budgets were subsumed within the budgets of the MoI and other central line ministries. The 1998 Provincial Budget and Management Law has altered this arrangement which requires provinces and cities to prepare their own budgets and to negotiate directly with the MEF. Provincial budgets, however, cover only current expenditures while capital investments are included in the Public Investment Program (PIP). Since there are no provincial PIPs, provincial capital investments are in fact still dependent upon central ministries' budgets.

1.15 The central government has devolved to the provinces certain responsibilities for the provision of local services such as water supply, garbage collection, street lighting, and fire fighting. They are also expected to pay for the salaries and wages of their employees as well as subsidies to districts, communes, and villages. To pay for these services and expenditures, provinces are allowed to retain revenues derived from five categories each of tax sources (taxes on unused land, registration fees and vehicle taxes), and from non-tax sources (user charges on electricity and water, market fees and rentals).

1.16 For 1999, the MEF has set a provincial expenditure ceiling of 35 billion riels, which is about 23.4 percent of the government's own revenue budget (Table 1). The provincial expenditure ceiling is determined on the basis of historical expenditure-revenue patterns of individual provinces and cities. Expenditures are to be financed in part from revenues collected and retained by the provinces, estimated at 20 billion or 57 percent of total provincial expenditures. The difference between provincial expenditures and revenues is to be funded by transfer from the central government of 15 billion riels.

Table 1: Estimated Provincial Revenues and Expenditures, 1999
(in million riels)

	Amount	Percent
A. Provincial Expenditures	35,000	
1. Salaries	5,670	16
2. Operation and Maintenance	22,630	65
3. Subsidy to districts, communes	6,400	18
4. Social subsidies	300	1

⁸ Published disaggregated subnational /provincial data are not available and/or difficult to access.

B. Provincial Revenues	20,000	57
1. Tax Revenues	15,000	75
i. Taxes on unused land	1,000	7
ii. Registration fees	5,000	33
iii. Patent fees	2,500	17
iv. Tax on abattoirs	500	3
v. Vehicle tax	6,000	40
2. Non-tax revenues	5,000	25
i. User charges on electricity supply	121	2
ii. User charges on potable water supply	37	1
iii. Market fees and rental	4,425	89
iv. Other non-fiscal revenues	417	8
C. Transfers	15,000	43

Source: MEF, RGC, 1999.

1.17 The revenue-sharing arrangement under the new law provides incentives to provinces to increase their revenue collection efforts for two reasons. First, provinces can retain all revenues they collect from the tax bases assigned to them by the MEF. Second, the central government has fixed the amount of transfers to individual provinces. Thus, if provinces want to increase their level of spending for existing local services or to expand their local service coverage, they can do so by improving their collection efforts. To a certain extent, provinces may be able to increase their revenues by improving collection efficiency. They are not, however, able to change the tax rates which are determined by the MEF.

1.18 The MEF has yet to develop a system of intergovernmental transfers that would address issues of both equity and efficiency. Provinces which have large revenue bases, such as Phnom Penh, Battambang or Banteay Meanchey, may be able to raise their revenues through increased collection efforts. This strategy, however, may not be applicable for remote and sparsely populated provinces such as Rattanakiri, Mondulokiri, and Stung Treng because of weak taxable capacity. These provinces have to get substantial transfers from the central government to provide local services to their population. In 1999, better-off provinces such as Battambang, Banteay Meanchey, Takeo, and Kompong Speu are being subsidized by the central government for as much as 75 percent of their total expenditures slightly less than the subsidy rate being extended to worse-off provinces such as Stung Treng, Rattanakiri, and Mondolokiri (Annex 2).

1.19 The category of revenue sources transferred to the provinces provide a relatively small proportion of total government revenues: less than 2 percent of tax revenues and only about 1.5 percent of total revenues.⁹ A significant proportion of total revenues collected by the provinces, such as proceeds from fishing lots and forestry concessions or receipts from public enterprises, are turned over to the central government. Although the

⁹ World Bank, PER, 1999.

devolved revenues are quite insufficient for the expenditures necessary for the responsibilities assigned to local governments, this devolution is an important initial step in paving the way for local governments to assume responsibilities for service provision in their areas and gradually to become more accountable to their constituents.

1.20 Sources of funds for local development. Donor agencies play a major role in supporting local development in Cambodia either by directly providing infrastructure and basic services to meet local needs or through technical and financial assistance to local communities and/or local governments. It is difficult to quantify external donor assistance to provinces because a large proportion of their assistance is off-budget. Donors' support, however, could be as high as 90 percent of local capital investment requirements.¹⁰

1.21 In per capita terms, the allocation from all sources combined including development funds and national government favors better-off areas. For 1994-1996, provinces with more than three-fourths of the country's population received barely half of the combined development funds (Table 2). In contrast, Phnom Penh, with only 7.5 percent of the nation's population, obtained a disproportionate share of more than two-fifths of all development funds. This is translated to a per capita expenditure for Phnom Penh more than ten times higher than those for all other provinces in 1996.

Table 2: Distribution of Public Expenditure, by Region, 1994-1996

Year/Area	All Sources		Government 1/		ODA/NGO 2/	
	Share of % to total	Per capita exp. (in riels)	Share of % to total	Per capita exp. (in riels)	Share of % to total	Per capita exp. (in riels)
<u>1994:</u>						
All provinces	38	56,639	19	14,371	57	42,269
Phnom Penh	52	354,261	11	18,836	66	335,424
Other Provinces	48	29,451	89	13,962	34	15,488
<u>1995:</u>						
All provinces	44	79,214	21	16,369	59	54,241
Phnom Penh	47	446,324	10	20,516	66	425,808
Other Provinces	53	45,662	90	15,989	34	20,280
<u>1996</u>						
All provinces	38	72,242	21	16,904	50	55,338
Phnom Penh	42	404,051	12	27,529	51	376,485
Other Provinces	58	45,212	88	16,039	49	29,173

¹⁰ The MEF does not have official records of actual donor funds flow to provinces. The Council for the Development of Cambodia (CDC) attempted to track information of donor funding to the provinces in 1998 by requesting international NGOs to report funds allocated to the provinces. Initially the effort paid off but it has not been sustained in 1999. The RGC does not have any enforceable requirements for official registry and regular reporting of external assistance flows to the country.

1/ Includes external budget support

2/ Contribution of NGOs in 1995 is not included (CR 87.749 billion).

Basic source of data: World Bank, January 1999, *Cambodia: Public Expenditure Review* .

D. Donor Support for Local Development

1.22 A host of major bilateral and multilateral donor projects are currently being implemented in support of rural development. These include the Social Fund of the Kingdom of Cambodia (SFKC), the *Seila*/CARERE2 project, the Local Development Fund (LDF) Project, PRASAC of the European Union, Provincial Development Program of GTZ, the Community Action on Social Development (CASD)/UNICEF, and the Northeast Village Development Project (NVDP) of the World Bank. International non-governmental organizations (INGOs) play an equally important role in providing small-scale infrastructures and services to local communities (Table 3).

1.23 The first generation of donor-funded projects in Cambodia initiated between 1993-1996, was designed within a rehabilitation and reconstruction framework. Most of these projects financed small-scale infrastructures selected for their quick-impact. These projects were directly implemented by donor agencies themselves, with minimum consultation and coordination with line ministries and local governments.

1.24 By the mid-1990s, the RGC shifted its policy orientation from reconstruction to development. The shift was marked by the publication of the first national development plan under a market-oriented economy, the SEDP, 1996-2000. The SEDP enunciated the RGC's long-term development goal of poverty alleviation and outlined its multi-sector development objectives. The SEDP is accompanied by a three-year rolling plan for development expenditures, the Public Investment Program (PIP). Subsequently, there has been an overwhelming shift by both donor agencies and international NGOs, from a reconstruction-orientated mode of operations to a more developmental approach in project implementation.

1.25 The second generation of donor-funded projects began in the mid-1990s. They departed markedly from a reconstruction framework. These projects established structures that worked closely with government counterparts, operated through newly established rural development structures, and provided both financial and technical assistance as well as training for local counterparts. Other projects with first generation origins were redesigned and in some cases their staffing composition was revamped, as in the case of CAREERE1 and PRASAC, to adopt participatory approaches in project formulation and implementation and to integrate capacity building components. Other projects, such as the SFKC, have maintained a reconstruction framework and continue to operate from the center. However, recent plans by the SFKC to regionalize its operations provide some indications that it is shifting to a more decentralized and development oriented framework.

Table 3: Illustrative List of Rural Development Programs in Cambodia, 1999

Organization/Duration/ Budget	Type	Objective	Area Coverage/Components	
1. GTZ/Provincial Development Program; 1996-1998 (DM 7 M)/10-year commitment (DM 20 M)	Bilateral assistance from German government	To meet basic needs of the rural poor in Kompong Thom and Kampot provinces	2 provinces: Kompong Thom (25 villages) and Kampot/farming systems, natural resource mgt., rural finance, off-farm production.	Partic PDR Imple
2. Seila/CARERE2/ 1996-2000/\$50M*	UNDP and supported by bilateral agencies (Sida and Dutch gov't, EU) and UNCDF	To alleviate poverty and promote peace through decentralized rural development planning and financing	5 provinces: Battambang, Banteay Meanchey, Pursat, Siem Reap, Rattanakiri/agriculture, infrastructure, education and culture, health, water and sanitation, gender and governance	Dece PRD and f
3. PRASAC/EU; Phase 1: 1995-1998/\$43M; Phase 2: 1999-2003/\$42 M**	Supported by the European Union.	To establish favorable conditions in support of the rehabilitation and development of agricultural sector in Cambodia.	6 provinces: Svay Rieng, Prey Veng, Takeo, Kampong Speu, Kampong Cham and Kampong Chhnang/ Domestic water, agricultural production, village credit, and micro enterprises.	Integ (Phas count mana coord
4. CASD/UNICEF; 1996-2000 (5 years)/ \$20.5 M	UNICEF; supported by international donors	Improve living conditions of women and children.	Battambang, Svay Rieng, Kompong Thom, Takeo, Kampong Speu, Prey Veng, Kratie, Stung Treng /capacity building; education & child care, food & environment; health & hygiene; care of women and children; credit, employment, and income.	Comm VDC as co
5. Local Development Fund (LDF); Phase1: 1996-1999/\$3.0M	UNCDF supported and executed through Seila/CARERE2	Develop participatory demand driven infrastructure planning, financing and management, strengthen RDS	Same as Seila/CARERE2 provinces	Dece plann
5. Social Fund/WB; Phase 1: 1995-1998/\$20M; Phas2: 1999-2003/\$25 M	IDA credit from World Bank; run by an autonomous agency under the PM.	Rehabilitation and reconstruction of small-scale, community based infrastructures at local level.	Countrywide/ Social and economic infrastructures: mainly rural schools and wells, but aiming to diversify into roads, irrigation, urban water supply and multi-sectoral projects.	Prom benef privat opera
6. Northeast Village Development Project (NVDP)1999-2001 /\$6.3M/WB	IDA credit from World Bank, implemented by the Ministry of Rural Development	Poverty alleviation through decentralized, participatory development approaches	4 provinces/12 districts in the Northeast, Kampong Cham, Kampong Thom, Kratie, and Stung Treng/small-scale social and economic infrastructures	Partic

* Cambodia Resettlement and Reintegration Project (CARERE1), 1992-1995 in partnership with UNCHR focused on quick-impact, emergency type of projects, providing infrastructure and relief services to refugees returning from the Thai border. CARERE 1 worked only in the four NW provinces.

** PRASAC 1 was designed as pre-development phase to establish baseline information and was engaged in rapid impact type of activities. Phase 1 provincial operations were managed by three consultancy firms.

Basic source of data. CDRI/MRD. 1998. *Learning from Rural Development Programs*.
Updated in August, 1999.

II. Social Fund Operations

2.1 **The Social Fund of the Kingdom of Cambodia (SFKC).** In 1998, SFKC completed the implementation of phase one of the Social Fund (SF1) and the second phase (SF2) commenced in mid-1999.¹¹ The first year of SF2 (June 1999 to July 2000) is labeled as an experimental phase focused on establishing collaboration with other institutions involved in local development and in developing sustainable approaches to project selection and implementation.

2.2 The major focus of SF1 was to provide rapid and effective financing for small-scale community-based social and economic infrastructure projects in poor and underserved areas in the country. It had three other objectives: 1) to create short-term employment opportunities, 2) to strengthen local communities and local institutions to identify local development needs and manage small-scale infrastructure projects, and 3) to develop line ministry experience and capacity in developing investment criteria for local infrastructure.¹² The SFKC also implements the civil works component of another World Bank-funded project, the Cambodia Disease Control and Health Development (CDCHD), on behalf of the Ministry of Health (MoH), which is the implementing agency of CDCHD.

2.3 The second phase of the Social Fund (SF2) is an extension of the SF1 mandate for financing small-scale infrastructure projects within a reconstruction framework. SF2, thus, maintains a similar set of objectives as SF1.¹³ Three distinct programs, however, have been added to the SF2 components, including sustainability (increasing community participation and local ownership), technical standards (raising technical standards), and productivity (improving appraisal techniques).¹⁴

2.4 Both SF1 and SF2 have provided funding for small-scale infrastructure projects nationwide. As of 1998, 1,431 projects had been approved out of more than 5,700 applications, or about 25 percent of total demand. Under SF1, priority was given to small-scale social infrastructure projects such as primary and secondary school buildings, and health centers which respectively account for 71 percent and 9 percent of total fund allocation. Other sectors that were funded included water and sanitation (11 percent), transport (9 percent), and agriculture (3 percent). Under SF2, priority has been accorded to economic infrastructure projects including irrigation, rural roads, water supply, sewerage, drainage, and latrines. SFKC also allocates funds for training on sustainability and skills development.¹⁵

¹¹ Discussions about the SFKC focus on the SF1 experience because that experience informed the changes adopted in SF2.

¹² World Bank. Staff Appraisal Report, 1995, Cambodia: Social Fund.

¹³ Under objective 3, SF 2 has included local governments, (PAD, 1998).

¹⁴ World Bank, PAD, 1998.

¹⁵ Operations Manual, SFKC, 1999

2.5 SFKC is an autonomous government agency under the Prime Minister (PM).¹⁶ Its organizational autonomy is justified under its reconstruction and rehabilitation mandate. It is argued that the autonomy of SFKC shields it from political interference and manipulation and allows the organization greater flexibility and responsiveness. The general impression is that SFKC may have succeeded in making itself politically neutral. However, it suffers from a general perception that it is lacking in transparency and accountability.

A. Planning

2.6 Subprojects funded by the SFKC are not based on any local government plans nor on priorities of line ministries. However, subproject requests are checked indirectly against priorities of local governments and line departments by requiring applicants to secure signatures from these entities. In addition, SFKC sends a list of approved subprojects to heads of line ministries for clearance on a no-objection basis. With the exception of the project application and procurement, which are designated to a community representative, and implementation, which is undertaken by a contractor, the entire process of ranking, appraisal, financing, monitoring, and fund disbursement is handled by the SFKC. Table 4 illustrates SFKC's project cycles for SF1 and SF2, respectively.

2.7 **Mechanisms for demand-oriented project funding.** The SFKC elicits demand for project funding from local communities. Applications are made by individuals or groups of people representing a community. SFKC does not respond to all local preferences but orients demand to a menu of subprojects, mostly for infrastructure, which are predetermined by SFKC. Subproject proponents submit their applications along with proposed technical designs to the SFKC after securing signatures required from various levels of local authorities. Upon receipt of each application, SFKC checks the project's eligibility and ranks the request to determine the order in which they are to be appraised according to the following criteria: 1) percentage of funds already committed in the province; 2) percentage of funds already committed in the subproject sector; and 3) the date of application. If the application meets the criteria, the SFKC informs relevant departments and ministries in order to obtain their clearances on a no-objection basis. If the departments or ministries do not respond within 10 days, SFKC proceeds to appraise the subproject.¹⁷

2.8 In principle, projects are appraised based on technical, institutional, social, and environmental criteria. In practice, however, the appraiser only verifies the information supplied in the application form and usually meets with only the individual applicant.

¹⁶The PM appoints the Board of Directors and the Executive Committee (Excom) including the General Director (GD) who manages the day-to-day activities of SFKC. Top management positions of SFKC were held by members of the two dominant political parties prior to July 1997. Subsequently, they have been held by members of the PM's party. Unlike many donor-funded projects, SFKC is run entirely by Cambodians and assisted by an occasional one or two short-term expatriate consultants. The GD is a member of the Excom but it is unclear who the other members are. Both the GD and key staff members seem to be reluctant to reveal the members of the Excom.

¹⁷ In SF1, the waiting period was 5 days.

Table 4: SF1 and SF 2 project cycles:

SF1		SF2	
Steps	Responsibility	Steps	Responsibility
1. Promotion	SFKC/Promotions Department	1. IEC	SFKC/Promotions Department
2. Application	Community: individual applicant or representative of the community	2. Application	Community representative /MoUs
3. Ranking	SFKC/MIS Dept.	3. Ranking	SFKC/MIS; does not apply for subprojects identified through MoUs
4. Appraisal	SFKC/Appraisal Dept.	4. Pre-appraisal	Promotion/Sustainability
5. Approval	SFKC/Excom	5. Appraisal	SFKC/Appraisal
6. Procurement	Community: individual applicant with assistance from SFKC/Legal Dept.	6. Approval	SFKC/Excom
7. Contracting	SFKC/Legal Dept. with Supervision Dept.	7. Procurement	Applicant; Verified by SFKC through Legal and Supervision
8. Implementation	Contractor	8. Contracting	SFKC/Legal and Supervision
		9. Implementation	Contractor
		10. Supervision	SFKC/Internal and External supervisor/Applicant
9. Supervision	SFKC/Supervision Dept. (Internal and External)	11. Hand-over	SFKC/Internal Supervisor
		12. Maintenance and follow-up	SFKC/Sustainability Unit

Source of basic data: Operations Manual, Social Fund Phase2, SFKC, Phnom Penh, Cambodia. August, 1999.

The process excludes other community members from being informed about the project and offers no opportunity for coordination with line departments and local governments. The appraiser makes the recommendation on whether to approve or reject the proposal and then submits to the Executive Committee (Excom) for the final decision. Upon approval by the Excom, the SFKC informs the applicant and publicizes the list of approved projects in a national newspaper. The applicant selects the contractor. Upon verification of the contractor's qualifications through its legal and supervision departments, SFKC enters into an agreement with the contractor and the applicant. Key issues include the Social Fund's promotional methods and the kinds of responses and outcomes that have been generated, including high transaction costs in accessing project funding from SFKC and possible distortion of local preferences.

2.9 High transaction costs and SFKC funding. Applicants seeking funding from SFKC face high transaction costs. These arise from limited circulation of information to local communities, highly centralized operations of SFKC, lack of feedback mechanisms, and weak institutional linkages with local authorities and line departments. SFKC stimulates applications through workshops to inform community representatives and local authorities about its priorities, eligibility criteria, and the application process. The information campaign, however, has been concentrated at national, provincial, and district levels but apparently less so in local communities especially in remote and hard-to-reach areas.¹⁸

¹⁸ In 1998, for instance, SFKC focused its information campaign on relatively better-off areas such as Kompong Cham, Battambang, Takeo, Siem Reap and Kandal provinces (SFKC, 1998 Annual Report).

2.10 The outreach program appears to have been deliberately contained partly because of fears of generating demand that could not be met and partly because of logistics and personnel limitations.¹⁹ SFKC seems to rely mostly on word of mouth and on project signage to create public awareness about the Fund.²⁰ As a result, most applicants obtain information through sources other than the SFKC. Based on a project stakeholders' survey, only 17 percent of the information about the SFKC came from SFKC itself and the rest came from other sources such as local authorities, friends out of the community, international NGOs, and contractors. In some areas, information about the SFKC seems to have not reached local communities at all. For example, in Mondulhiri province, which is one of the poorest and most remote provinces in the country, only one funding request was made for the entire province.²¹

2.11 The highly centralized nature of SFKC operations also makes the application process inaccessible to local communities in remote and hard-to-reach areas. Because SFKC operates in Phnom Penh and does not have representatives in the provinces and because the postal system is unreliable, applicants have to travel to the capital to submit their applications. The cost of travelling to Phnom Penh can be prohibitive for those who are poor and those who live in far-flung areas.²² In addition, an applicant incurs the costs of preparing technical design. In many cases, the applicant has to approach someone from the community for assistance, sometimes an NGO, a contractor, or from a line department. This can lead to serious problems when a contractor absorbs the costs of design preparation, he/she then may expect to be named a contractor for the project.

2.12 SFKC does not have a feedback mechanism. This has led to frustration and lack of trust in the system by applicants and to misuse of information by contractors. SFKC does not follow a planning and funding cycle with a circumscribed time frame. Applicants can apply anytime and applications are processed as they come. This process gives all applicants an equal chance of having their requests funded. But the downside is that the applicant does not know in advance when the project should be approved or rejected. There is no mechanism to provide such information. Generally, contractors have better access to information because many of them are based in Phnom Penh and some have insider contacts that inform them about project approvals. Asymmetrical access to information for contractors and applicants has led to applicants being exploited by contractors.²³ The lack of any feedback mechanism has also created a lot of frustrations among applicants. Some have had applications on file for more than two years with no

¹⁹ Interview with the General Director, SFKC.

²⁰ Interview with the Director of the Promotions Department; 1998 SFKC Annual Report.

²¹ A single individual, a former governor, obtained his information about SFKC from friends in Phnom Penh. Mondulhiri received funding for 20 projects. Beneficiaries were not informed until later. Beneficiary Assessment (BA), 1998.

²² Some communities have had to contribute money so that an applicant can travel to Phnom Penh to submit an application, to follow-up, select a contractor, etc. This cost grows with the number with the number of applications.

²³ Contractors are sometimes informed of project approvals ahead of the applicants and use that information to secure contracts from the applicants.

response from the SFKC.²⁴ Others have presumed that their requests were approved and are left wondering why SFKC has not come.²⁵

2.13 The weak institutional linkage between the SFKC and local authorities and line departments also has transactional cost implications. The lack of mechanism and guidelines set up jointly by SFKC, local governments, and line departments to clear applications or to secure signatures from each of these entities permits opportunistic behavior by these various actors. In some cases, applicants have had to pay for signatures for applications for schools and wells.²⁶

2.14 **Community representation and quality of local preferences.** One of the central tenets of the SFKC is that it responds directly to preferences of local communities and empowers communities to make decisions and to manage development on their own localities. This is done, however, at the expense of bypassing local authorities and line ministries. In the process, SFKC places a lot of burdens on local communities to organize, to mobilize resources, and to take responsibility for procurement, monitoring, and maintenance of project assets. The concept of community, however, especially in the Cambodian context, has a complex dimension. Local communities in Cambodia, as in many other developing countries, vary in degree of social cohesion and capacity for collective action.²⁷ SFKC, however, does not make a distinction between communities that are better organized and those that have less experience in community mobilization. Under SF2, this issue is going to be addressed by providing training to community representatives on community organizing before their project applications are considered for appraisal.

2.15 In operational terms, SFKC defines community applications as synonymous with applications of single individuals. In many cases, applications come from a school director, village or commune chief, or a contractor, representing the private sector. Community participation in the form of individual representation raises question on how local preferences as distinct from an individual's personal preferences are formulated and prioritized. This arrangement seems to leave little room for other members of the community to be included in the process and to negate the intention of the SFKC to empower whole communities.

2.16 Under SF2, the issue of individual representation is addressed by requiring co-applicants, instead of just one single applicant. SFKC also requires the formation of a Project Support Committee (PSC) which is expected to consult with communities prior to submission of applications and to act as the key contact point with SFKC.²⁸ How such

²⁴ BA, 1998.

²⁵ District education office, Bavel district, Battambang province. A receipt issued by SFKC dated April 1997 acknowledged receipt of several school building applications.

²⁶ BA, 1998. For example, in Siem Reap province, schools had to pay \$100 to get land titles from the Land Office.

²⁷ A national workshop was held in June 1999 debating the question of whether "community" exists in Cambodia given the country's long history of civil strife.

²⁸ Operations Manual, SFKC

PSCs will be formed and whether they will integrate existing local institutions such as VDCs or pagoda committees have yet to be further elaborated by SFKC.

2.17 Linkages with Line Ministries: The Case of the Health Sector. The institutional relationship between SFKC and MoH demonstrates that delineating clear lines of responsibilities, involvement of stakeholders in monitoring, and more dialogue and consultation could lead to positive outcomes in terms of improved technical quality of infrastructure projects and a greater sense of ownership. In the past, several Provincial Health Departments (PHDs) claimed that the SFKC had built health centers of poor technical quality. Ironically, in 1998 the civil works component of CDCHD was transferred to SFKC.²⁹ Under this new arrangement, a Terms of Reference clearly specifies responsibilities between the two entities. MoH selects the project sites through its national health coverage plan and is involved through its PHDs and along with SFKC, in the procurement and monitoring of civil works including co-signing the certificate of completion. SFKC, on the other hand, is responsible for the technical aspects of the civil works. These aspects include: appraisal, design specifications, costing of the works, bidding, and monitoring and supervision of the construction, payments to contractors and preparation of guidelines for the maintenance of the assets.

2.18 Feedback from two PHDs indicates that the quality of health center construction has begun to improve dramatically. Key to the change has been the active involvement of PHDs in monitoring which makes the contractor aware of dual accountability to both SFKC and MoH. There are, however, some lingering issues pointing to SFKCs' inclination for speed at the expense of consultation and dialogue, sometimes leading to design and implementation problems.³⁰

B. Social Fund Financing

2.19 Financing for SFKC primarily has come from the World Bank through IDA credits of US\$20 million and US\$25 million for SF 1 and SF2, respectively (Table 5). The RGC has provided counterpart funds of 5 percent of the World Bank loan amounts. SFKC has also received an additional \$10 million from the World Bank to implement the civil works component of CDCHD. There have been attempts since SF1 to secure direct co-financing from donors but so far none have been successful. Since 1998, however, there have been co-financing arrangements at the project level with NGOs and other donor-financed programs, such as the *Seila/CAREERE* project. Under SF2, SFKC has initiated co-financing arrangements at the project level primarily through Memorandum of Understanding (MoUs) with other major donor-financed programs, some NGOs, and other private organizations. To date, SFKC has finalized a co-financing agreement with

²⁹ One key informant from MoH claimed that MoH was never consulted about the decision which was made by MEF.

³⁰ Example is a referral hospital in Siem Reap which was built without proper consultation about its technical design. A committee had to be formed involving MoH, SFKC, and WHO, to discuss design issues. SFKC has also been compared to an Asian Development Bank (ADB) funded project in which the civil works component have been supervised by an outside professional consulting firm. Both representatives of MoH and WHO claim that the ADB set-up has been better in terms of process and output.

WFP valued at \$700,000 and is negotiating with Seila/CARERE2 for an estimated amount of \$2.0 million. The co-financing arrangements involve SFKC providing project financing while the co-financiers provide institutional support in project selection, maintenance, and sustainability of subprojects.

Table 5: Social Fund Financing, 1995-2003

Sources	Amount (in million US dollars)	
	SF1 (1995-1998)	SF2 (1999-2003)
1. World Bank/IDA Credit	20.0	25.0
2. CDCHD/MoH/World Bank/IDA Credit		10.0
3. RGC Counterpart Contribution*	1.1	1.2
Total	21.1	36.2

*Estimated as 5 percent of IDA amount.

Basic source of data: SFKC

2.20 SF1 and SF2 are off- budget items and are placed under a Special Account which is managed by the SFKC with oversight from the MEF.³¹ SFKC funds have been provided as grants to local communities which are required to provide counterpart contributions, both in cash and in kind. Under SF1, local communities were expected to provide 5 percent of local contribution but this was not strictly enforced. A minimum 10 percent matching contribution is being stipulated under SF2. In- kind contribution include materials, technical designs, and equipment. In the past, materials contributions were not integrated in the subproject cost estimates but SF2 is expected to change this policy. SFKC does not encourage labor contributions because they undercut its objective of creating local employment. An example of a local matching contribution of 10 percent is provided by SFKC, as follows: attendance at meetings, and preparation and submission of application to SFKC (2.5%); preparation of technical design (1.5%-2.0%); participation in project launch and selection of a contractor (1.0%); work done by community (3.5%-4.0%); monitoring and post-hand over (1.5%).³² Some in-kind contributions such as attendance at meetings, are difficult to quantify and SFKC has not yet specified their methodology.

2.21 **Geographic allocation of funds.** SFKC provides funding nationwide. Both SF1 and SF2 have made allocations at the provincial level according to population adjusted for poverty levels. The poverty index coefficient is based on measures of access to safe water supply and education. The derived poverty coefficient index, however, does not vary significantly among provinces (see Table 6). While the allocation does not necessarily favor poorer provinces, it provides funding for worse-off areas that normally cannot get funding from other sources. This is a comparative advantage of the SFKC, especially when the pattern of external donor support has disproportionately favored

³¹ Loan funds in Cambodia are placed under Special Accounts (SAs) which are managed by the implementing agency with oversight from MEF. Being an autonomous agency, SF has a special type of SA for which SFKC does not have to get a co-signature from the MEF when requesting advances or replenishment from the World Bank.

³² Operations Manual 1999, SFKC.

Table 6: Provincial allocation, SF 1 and SF 2

Province	SF I	Per capita	SF II	Per capita	Total
Banteay Mean Chey	875,788	\$1.52	1,103,178	\$1.91	1,978,966
Battambang	1,149,629	\$1.45	1,448,119	\$1.83	2,597,748
Kampong Cham	2,426,303	\$1.51	3,056,270	\$1.90	5,482,573
Kampong Chhnang	645,963	\$1.55	813,681	\$1.95	1,459,644
Kampong Speu	883,093	\$1.48	1,112,379	\$1.86	1,995,472
Kampong Thom	924,130	\$1.63	1,164,071	\$2.05	2,088,201
Kampot	885,289	\$1.68	1,115,146	\$2.11	2,000,436
Kandal	1,567,346	\$1.46	1,974,293	\$1.84	3,541,640
Koh Kong	197,988	\$1.50	249,394	\$1.89	447,382
Kratie	345,826	\$1.32	435,616	\$1.66	781,442
Krong Kep	52,588	\$1.83	66,242	\$2.31	118,830
Krong Pailin	33,161	\$1.45	41,771	\$1.83	74,932
Mondolkiri	61,048	\$1.88	76,898	\$2.37	137,946
Oddar Meanchey	112,430	\$1.63	141,622	\$2.06	254,052
Phnom Penh	1,117,828	\$1.12	1,408,061	\$1.41	2,525,889
Preah Vihear	194,625	\$1.63	245,157	\$2.06	439,782
Prey Veng	1,441,422	\$1.53	1,815,673	\$1.92	3,257,095
Pursat	517,036	\$1.44	651,280	\$1.81	1,168,316
Rattanakiri	169,283	\$1.80	213,235	\$2.26	382,518
Siem Reap	1,205,582	\$1.73	1,518,601	\$2.18	2,724,183
Sihanoukville	230,700	\$1.48	290,599	\$1.87	521,298
Stoeung Treng	124,153	\$1.53	156,388	\$1.93	280,541
Svay Rieng	694,022	\$1.45	874,218	\$1.83	1,568,240
Takeo	1,204,391	\$1.53	1,517,100	\$1.92	2,721,492
	17,059,623	\$1.49	21,488,995	\$1.88	38,548,619

Source: SFKC

better-off areas such as Phnom Penh and provinces close to the capital. The provincial level targeting, however, does not address intra-provincial disparities. Once funds are allocated to a province, no further geographic prioritization is made. Nor is there any mechanism to determine if project investments have been provided to the same area from other sources. In Battambang province, for instance, some better-off districts received more funding from SFKC, while others have received nothing. On a per capita basis, the disparity in Battambang province ranged from \$2.79 for Ek Phnom district to \$0.32 for Moug Roussei district.

2.22 Another form of targeting is through sectoral ranking. SFKC determines in advance the types of eligible projects that would benefit the poor most. These project types such as schools, health centers, and irrigation systems are ranked which also forms the basis for screening requests. While ex-ante these project types may benefit the poor, their actual location and beneficiaries can only be determined during appraisal. However,

without field verification and consultation with local communities, SFKC may not necessarily assure that its projects benefit the poor and vulnerable.³³

2.23 SF2 is intending to undertake intra-provincial targeting at a district level. But the methods for SFKC to determine district distribution of funds have not been fully articulated yet. One constraint is lack of official data on subnational levels. Another is logistical and personnel. However, there are an increasing number of donor organizations such as WFP and the *Seila/CARERE2* which have developed subnational level data bases. Also, information on allocation of investment funds across and within provinces can be obtained from various donors and local governments. The planned decentralization of SFKC office and personnel will hopefully facilitate consultation with local governments and other local institutions.

C. Implementation

2.24 SKFC oversees the entire process of implementation, from procurement, through supervision, to fund disbursements. This assures SFKC control over the quality and pace of project implementation. Private contractors are the implementing agencies of SFKC-funded projects.³⁴ Procurement is done by direct contracting and is the responsibility of the applicant. However, in almost all cases, procurement of a contractor is either influenced by the SFKC or is facilitated by the SFKC.³⁵ While there is nothing inherently wrong about this process, the asymmetrical relationship between a contractor and an applicant, especially given the latter's lack of experience, places the applicant in a very disadvantaged position³⁶

2.25 There is variation in the quality of technical supervision. Disparities can be explained largely by how well internal supervisors monitor the work of external supervisors. SFKC supervises the construction of projects through locally recruited technicians who are in charge of the day-to-day monitoring of on-site construction activities. Each external supervisor is supervised by an internal supervisor from the SFKC.³⁷ Internal supervisors visit the project site only once or twice during construction and place responsibility for supervision work largely on the external supervisor. Limited

³³ For example, a well has been located in the home of a commune chief (Ta Kream commune, Banan district) or an irrigation project that has benefited a provincial official's land (Anlung Run). Field visit and Beneficiary Assessment, 1998, respectively.

³⁴ SFKC follows the WB procurement procedures ,i.e., direct contracting for projects under \$50,000. The majority of SFKC projects fall under this category.

³⁵ A key informant noted that "contractor selection [by the applicant] never happens".

³⁶ There are several ways in which the SFKC could be involved in the procurement process. First, the SFKC, through its legal and supervision departments, reviews the qualifications of contractors selected by applicants and approves the nomination of contractors. Second, applicants who do not have any experience in contracting and knowledge about contractors in their areas have, in many cases, requested the SFKC to select a contractor for them. Third, SFKC publicizes its list of approved projects in a national newspaper before the information reaches the applicants; contractors then use this information to contact the applicant. Fourth, SFKC encourages contractors to assist applicants in the preparation of applications and technical designs and almost inevitably applicants are obliged to return to the same contractors to construct the project.

³⁷ An external supervisor normally oversees 2-4 projects while an internal supervisor is in charge of 2 provinces or an average of 10 projects at one time.

supervision by the internal supervisor sometimes leads to a principal-agent relationship. Collusion between contractors and external supervisors sometimes including applicants inevitably leads to bad quality workmanship.³⁸

2.26 Another reason for variability in the quality of construction work is the practice of subcontracting or serial sales of contracts. The serial sale of a contract leads to significant reduction in the final contract price resulting in either non-completion of work or non-adherence to material specifications. SFKC does not allow subcontracting, but it is common knowledge that it happens in many of its projects.³⁹ Although, SFKC threatens sanctions for subcontracting, it is generally difficult to establish evidence and the legal system does not provide immediate recourse.

2.27 The involvement of the applicant, much less the community, in project monitoring is nominal. Under SFKC rules, an applicant is expected to monitor the progress and quality of construction work as well as to sign off, along with the external supervisor, on all progress payment requests for the contractor. In many cases, however, an applicant has little influence in ensuring the quality of work because of lack of capacity and experience. The local community, in many instances, is also removed from the monitoring process because it is not contacted by the SFKC. However, projects with active community participation in monitoring generally gain in good outcomes.

2.28 SFKC is responsible for processing and disbursing funds directly to the contractor. A statement of accomplished work forms the basis for request for payment. It is prepared by the contractor and external supervisor and approved by the applicant, external supervisor and internal supervisor. Upon clearance by the supervision department of the statement of work accomplished, a payment invoice is prepared by the finance department and endorsed to the General Director for approval. SFKC transfers funds, in the form of money transfer order, directly to a bank account of the contractor. The “payee” name option adopted by the SFKC allows the contractor to delegate payment directly to a third party, often to a subcontractor, without the applicant’s approval or even knowledge. This payment system encourages rather than prevents subcontracting practices to persist.

D. Sustainability

2.29 Several factors affect the sustainability of SFKC funded projects, including participation, benefits and mechanisms for maintenance. Projects funded under SF1 were selected and implemented with limited community participation in decision-making and in local contributions. Thus, control over these projects by local communities was compromised. For instance, the marginalization and weakening of local institutions, such as the pagoda committees or VDCs which generally organize and mobilize community

³⁸ BA, 1998.

³⁹ Interview with subcontractor of Ta Kream road-culvert project, Banan district, Battambang and with team leader of BA. See BA, 1998.

support for maintenance, contributed to lack of sustainability of some SFKC projects.⁴⁰ Lack of established mechanisms to follow-up after the handover, of training maintenance committees, and of maintenance plan guidelines also contribute to difficulties in sustaining some SFKC projects.

2.30 Despite the abovementioned factors, some projects have been maintained by communities because they have produced benefits for them. The direct relation between benefits and sustainability has been particularly evident for wells and school building projects. Some impressionistic evidence indicates that, despite lack of participation by beneficiaries in decision-making, communities do maintain projects if they respond to their needs and produce benefits. Contrary evidence shows that even when communities have participated in decision-making but projects, such as badly built schools or non-functioning wells, do not provide expected benefits or satisfactory outputs, villagers subsequently withdraw from further contributions or involvement.⁴¹

2.31 SFKC is addressing the issue of sustainability on several fronts, at both organizational and policy levels. At the organizational level, SFKC has established a Sustainability Unit under the Office of the General Director. It develops strategies and work plans on participatory methods for project selection and implementation, and coordinates implementation among various SFKC staff and institutional partners. There is also a plan to establish three regional offices to decentralize and implement activities of the Sustainability Unit. At the policy level, the project cycle is being modified to incorporate several new steps including pre-appraisal, ground-breaking, project launch, and hand-over to ensure greater community awareness and participation by beneficiaries as well as feedback and interaction from SFKC representatives. Training and capacity building of SFKC staff and counterparts are envisioned under SF2 on various aspects of participatory methods including project selection, appraisal, and monitoring.

2.32 A key strategy in the sustainability program of SF2 is the proposed institutional collaboration with other donor agencies. Partnerships between SFKC and other donor agencies are being made through Memorandum of Understanding (MoUs) executed between SFKC and partner agencies. Each partner agency is expected to provide an organizational structure and local machinery to identify subprojects in a participatory manner and to ensure sustainable use and maintenance of subprojects. This institutional collaboration is also expected to improve the targeting of investments by the SFKC. SFKC, in turn, will provide financing for subprojects identified through the MoUs, using its own criteria and procedures to appraise, approve, and monitor the implementation of these subprojects.

2.33 While sustainability is the core objective of collaborative agreements with partner agencies, they are also viewed by SFKC management as expedient ways to move subprojects out of the pipeline. Partner agencies are better organized and better able to

⁴⁰ BA, 1998.

⁴¹ Example is a school building in Bavel district, Battambang. The community initially provided significant contribution but the project turned out to be poorly constructed. The community refused to contribute any more for its repair.

generate and package subproject proposals more effectively than individual community applicants. Projects identified through MoUs are favored over individual applications by exempting them from the internal ranking process. This means that applications submitted through MoUs will not be subjected to provincial or sector funding allocation constraints and most importantly, they will not have to queue for their turn to be appraised.

2.34 The MoU delinks planning from financing and implementation by assigning subproject identification to partner agencies while the SFKC maintains control of the appraisal, procurement, monitoring of the subprojects. Some donor agencies have said that they would like to get involved beyond project identification because of concerns about ownership and technical quality of their projects.⁴² They have, however, acted strategically by first agreeing with the SFKC on their funding allocations and hoping to then negotiate later on details of implementation. Whether the SFKC in fact has the flexibility to open discussions for more involvement of donor agencies in subproject implementation still remains to be seen.

2.35 There is question about whether and how SFKC will be able to carry out the sustainability program given its present institutional design and personnel complement. The fundamental institutional framework of the SFKC is reconstruction. In operational terms this is translated to a focus on speedy delivery of outputs. The incorporation of a sustainability program which advances community participation will require more process-oriented work which could slow-down delivery of outputs, particularly at the outset. The staff is expected both to deliver outputs speedily and at the same time to make the projects participatory and sustainable. Given that these two objectives are not necessarily mutually reinforcing, the motivation to do both depends on the kind of incentive structure the project personnel face. There are some indications that the SFKC management still prioritizes speedy delivery of outputs.⁴³

2.36 The SFKC has a small staff complement of about 50 people. The present personnel complement is already overextended. This partly explains inadequate supervision at the field level. Under the proposed sustainability program the same group of people will be trained to undertake participatory appraisal and supervision. The question is whether the staff who are mostly engineers or others with technical background will be able to quickly and effectively shift their orientation based on short training programs.

E. Accountability

2.37 The autonomy of the SFKC, its highly centralized operations, its limited personnel complement, and its reconstruction mandate do not predispose the SFKC towards building strong institutional relationships and linkages, much less fostering accountability and strengthening incipient social capital. While the autonomous status of

⁴² Interviews with representatives from CARERE, PRASAC, and GTZ.

⁴³ The head of SFKC, for instance, indicated that if they could move their current \$25 million budget in two years, the World Bank would double that amount of funding.

SFKC shields it from potential politicization of the process, it also makes it less responsive to demands from its external environment. Its inability to develop institutional relationships with local authorities and line ministries is partly explained by its special status. The SFKC has had opportunities to interact and dialogue with local communities. But the intermittent presence of its personnel and its past preference to deal only with individuals has not seemed to foster accountability on either both side. Its inability to foster institutional linkages makes SFKC vulnerable to perceptions and claims of lack of transparency in its operations. My overall impression is that accountability has not been fostered between SFKC and the local government and between SFKC and local communities.

E. Capacity building

2.38 SFKC does not provide capacity building to its local counterparts. SFKC's approach, particularly in SF1, has rested on a fundamental assumption that capacities already exist in local communities and in the private sector to undertake small-scale infrastructure projects.⁴⁴ Therefore, it does not have any program for training and capacity building for planning, implementation, and maintenance. Under SF2, however, there are plans to undertake training and capacity building for staff and local counterparts for the objective of sustainability. Concrete plans on the types of training and capacity building, and institutional arrangements are, however, still being worked out by the Sustainability Unit.

F. Efficiency

2.39 **Technical quality.** According to a technical assessment report, the overall technical quality of projects financed by SFKC is considered satisfactory.⁴⁵ Some project types, however, have been identified to have had serious problems of technical quality. These include projects for rural water supply, rural roads, irrigation systems, and sewage systems. Based on a survey of beneficiaries' perceptions, about 55 percent consider SFKC construction work to be of good quality, but 12 percent think that the quality is bad. Reports from the health and education sectors have also indicated poor quality of work in some health centers and school buildings.

2.40 **Cost-effectiveness.** The SFKC has been most cost-effective in projects for drilled wells and health centers (Table 7). These figures, however, have to be treated as benchmark indicators. Certain caveats hold in these comparisons in terms of possible differences in material specifications, timeframes, and geographic variations.

2.41 **Processing time** The SFKC claims that the duration between application and approval has been between 6-8 months. This is close to the applicants' perceptions of processing time, which is between 6 months and a year.

⁴⁴ World Bank, Staff Appraisal Report, March 20, 1995.

⁴⁵ Consultants' report, WB, 2/18/99.

Table 7: Cost comparison between SF and LDF projects, by category

	Social Fund design	SF cost / unit	CARERE standard design	Cost/Unit (1997/1998)
1	Schoolbuilding (3 room)	\$55.45	3.20 Brick school	\$48.85
2	Health center 22x5	\$131.09	None	None
3	Health center 12x9	\$129.31	Health center 9x12	\$154.30
4	Drilled well (Afridev)	\$909.63	1.20 Drilled well (Afridev)	None
5	Drilled well (VN 6)	\$308.81	1.20 Drilled well (VN No 6)	\$378.99
6	Pour flush latrine x2	\$1183.68	1.70 Latrine block	\$758
7	Culvert 1 x 60	\$364.49	2.11 pipe culvert 0.6	\$249.80
8	Culvert 2 x 60	\$619.89	2.11 pipe culvert 0.8	\$356.56
9	Culvert 1 x 80	\$469.45	2.12 pipe culvert 0.6	None
10	Culvert 2 x 80	\$784.88	2.12 pipe culvert 0.8	\$540.50
11	Culvert 3 x 80	\$1085.15	2.13 pipe culvert 0.8	\$1064.00
12	Box culvert 4.5	\$5357.63	2.40 concrete bridge 4m	\$4435.00

Sources of data: SFKC Appraisal Department and UNDP/CARERE. Phnom Penh, Cambodia.

2.42 **Fund disbursement.** Payments to contractors are transferred from SFKC’s bank account to a contractor’s account. The processing of payments for contractors seems efficient because it is done internally and does not require many clearances beyond the supervision department. According to the staff in finance unit, it takes them one day to complete the processing of a payment request.⁴⁶

2.43 **Administrative and supervision costs.** The total administrative budget of SFKC is limited by a statutory ceiling of 8 percent of the total amount of resources over a five-year period. While some administrative costs have ranged from 6 percent to 13 percent, its average administrative costs at the end of the life of SF1 were held within the statutory ceiling of 8 percent. Its supervision costs were estimated to average 2.5 percent, a component part of the costs of individual subproject.

III. The Local Development Fund (LDF) Operations

2.44 **Local Development Fund (LDF).** The LDF is executed through the *Seila*/CARERE2 project. Under this arrangement, UNCDF has provided financing as well as technical assistance to the *Seila*/CARERE2 project for the adaptation and implementation of the LDF methodology. The LDF was piloted in 1996 and its main phase was implemented in 1997. In the first year, UNCDF funding for the LDF was limited to two provinces, Battambang and Banteay Meanchey, but the LDF methodology was adopted in other three *Seila* provinces, Pursat, Siem Reap, and Rattanakiri as well.

⁴⁶ This may not be true if there is bunching of payment requests, but there was no opportunity to corroborate this information with contractors.

2.45 The LDF is the core component of the *Seila*/CARERE project.⁴⁷ As a policy experiment in local governance, the LDF promotes experimentation with decentralized systems in three areas: planning, financing, and management. The LDF provides assistance to local governments in the form of technical and financial support for the provision of small-scale infrastructure projects which are generally in the nature of public goods and services. The LDF has the following project objectives 1) to develop a participatory, demand-driven process for rural infrastructure planning and implementation; 2) to strengthen the capacity of provincial, commune, and village development committees to plan and manage development activities; 3) to finance priority rural infrastructure projects identified through a participatory and demand-driven process; and 4) to establish a system for mobilizing support for rural infrastructure projects.⁴⁸

2.46 The objects of financing of the LDF have generally been limited to small-scale rural infrastructures of public goods nature such as water supply, rural roads, culverts, minor irrigation works, and repair of schoolbuildings. Since 1996, over 1,500 LDF projects have been implemented valued at \$3.7 million. Over time, however, the use of LDF funds have diverged from its initial infrastructure focus to respond to the demands of villagers for non-infrastructure projects. The sectoral breakdown is as follows: transport, 40 percent; water and sanitation, 26 percent; irrigation and education, 9 percent, each, and non-infrastructure 16 percent.

2.47 While it has been demonstrated that the LDF approach has worked in the five *Seila*/CARERE provinces, some issues have been raised about how the model can be applied in other parts of the country. The LDF requires full-scale mobilization of rural development structures at various levels. Such an approach entails massive technical and financial assistance.

A. Planning

2.48 Subprojects funded under the LDF are identified and funded through the Local Planning Process (LPP). The LPP produces multi-year village action plans and commune development plans. Village plans are formulated with participation from villagers, together with VDCs and CDCs, and with facilitation from provincial and district teams. The LPP follows an annual planning cycle which is synchronized with the preparation of provincial development plans. Local plans are funded by LDF grants transferred to communes by the PRDC. The LPP consists of 20 steps (Table 8).

2.49 **Mechanisms for Local Planning.** The LPP is one of the system innovations advanced by the LDF. It starts with the allocation of an indicative planning figure (IPF), a block grant, for a three-year period by the province through the PRDC to communes

⁴⁷ The other program components of the *Seila* project cover four key sectors: health, education, agriculture, and infrastructure.

⁴⁸ Project Proposal, Main Phase (1997-1999). Local Development Fund, Battambang and Banteay Meanchey Provinces, Kingdom of Cambodia. AIT, Bangkok, Thailand. September 1996.

through the CDCs. Target villages and communes formulate village future action plans (VFAPs) which are then integrated into commune development plans (CDPs), forming the basis for allocation by communes of the IPF to activities identified by villagers.

2.50 LPP is integrated into sector and provincial development plans (PDP). The LPP and the PDP cycles have been synchronized since 1998 to achieve synergies in planning and financing of subprojects. The process of plan preparation culminates in their integration at the district level. The integration workshop, chaired by the district chief and attended by commune and line department representatives as well as by international and local NGOs, is a forum for communes and line departments to present their respective plans, and to negotiate their priorities. This workshop is also a venue for communes to leverage their IPFs by securing funding commitments from line departments and NGOs. After the district integration, CDCs know what activities from their plans can be funded and then they make their decisions on the use of their IPFs.

2.51 Subproject proposals are reviewed and approved by the Excom. The project owner, either the VDC or the CDC, is responsible for the procurement process from the conduct of bidding to award of the contract. Beginning in 1998, all projects costing more than \$1,000 have been implemented through simple competitive bidding.⁴⁹ A project

Table 8: Phases in the Local Planning process (LPP)

Steps	Responsible Level/Participants
1. Allocation of IPF to communes	PRDC/Excom
2. LPP orientation meeting for CDCs and VDCs	P/DFTs
3. Data collection and initial goal setting	VDC/Villagers
4. Formulation of village future action plan (VFAP)	VDC/Villagers
5. Validation of VFAP	VDC/Villagers
6. Formulation of CDP	CDC members, including monks, health officer, teachers
7. Feedback meeting to villagers about CDC meeting	VDC
8. CDC preparatory meeting for integration workshop	CDC
9. PRDC preparatory meeting for integration workshop	PRDC
10. Commune-Sector Integration	Planning staff/line department representatives, CDC representatives, L/INGOs representatives, DDC members
11. Allocation of IPF to activities	CDC
12. Feedback meeting to inform villagers of CDC decision	VDC
13. Project Proposal Preparation	CDC and VDC
14. Appraisal and approval of project proposals	PRDC Excom
15. Preparation of project work plan and collection of local contribution	CDC/VDC
16. Procurement/Bidding	Project owner/VDC/CDC
17. Signing of project agreement	PRDC with CDC/VDC
18. Release of IPF to CDC	PRDC/Excom
19. Allocation of LDF to subprojects	CDC
20. Reflection workshop on lessons learned in LPP	CDC

There are variations across the five provinces. Pursat province has 21 steps.

⁴⁹ In the past, all projects were implemented by VDCs.

Source: *CARERE PSO, Battambang province.*

agreement signed between the project owner and the Excom forms the basis for the release of funds to the CDCs, contingent on the collection of local contributions. CDCs release funds to VDCs or project owner based on progress payment requests.

2.52 Institutional framework of decentralized planning systems. Both the LPP and the PDP planning systems are managed separately under the overall supervision of the Provincial Rural Development Committee (PRDC) through its Executive Committee (Excom).⁵⁰ Each PRDC/Excom is chaired by the provincial governor. Other members include the directors for rural development, finance, agriculture, women's affairs, and planning. The PRDC/Excom is a deliberative body that makes important and wide-ranging decisions on behalf of the PRDC. Under its present mandate, the Excom manages development funds, allocates sectoral and local development funds, reviews subproject proposals from communes, and coordinates the monitoring of projects and activities in its province.

2.53 The PDP process is coordinated by the Provincial Department of Planning (PdoP). The PDoP works with sector focal points who are seconded personnel from staff and line departments.⁵¹ The LPP is implemented by a Local Planning Unit under a technical secretariat which manages the day-to-day work of the PRDC.⁵² The LPP is composed of provincial/district facilitation teams (P/DFTs) and technical support teams (TSS) with a combined total personnel of about 45 staff per province. P/DFTs and TSSs assist and facilitate the work of CDCs and VDCs. The P/DFT teams are responsible for organizing planning and project formulation at the village and commune levels while the TSS teams are in charge of appraising project proposals, technical design adaptation, and of monitoring and supervising civil works in progress.⁵³

2.54 LPP and Effective Participation. The LPP process is data and time intensive and raises the question whether the elaborate process directly translates into effective participation. The process lasts from 7 to 11 days per village and it takes about three months for all CDPs to be finalized. Contributing to the lengthy process is the use of extensive tools of the Participatory Rural Appraisal (PRA). The PRA exercise itself takes 2-3 days. The LPP uses five PRA tools including village mapping, social census, seasonal calendar, resource flow and wealth ranking. In its attempt to be participatory, villagers are involved in many aspects of the LPP from data gathering and analysis and validation

⁵⁰ The membership of the PRDC, as amended by Decision No.2, is composed of directors of ten (10) provincial line departments, and all district chiefs, plus representatives of international and local NGOs in the province, sitting as observers. Member provincial line departments include: rural development, planning, water, resource and meteorology, education, health, public works and transport, commerce, finance, and women's affairs.

⁵¹ The PDP team does not work full time and does not receive monthly remuneration from the project.

⁵² The secretariat is chaired by the director of the planning department. With the passage of Decision #2 in February 1999, overall supervision of the LPP branch was transferred to PDRD. There has not been a hand-over of these functions to date, except in Banteay Meanchey province.

⁵³ Both teams are comprise of personnel seconded from staff and line departments at the district and provincial levels and are provided monthly remuneration for working full-time with PRDC.

to work plan preparation. Based on studies undertaken by an external evaluator and UNCDF, the elaborate PRA process has stymied participation of villagers who found the exercise difficult to understand and tedious. The timing and lengthy process of meetings discourage participation from villagers who would rather spend their time working in their rice fields or earning a living.⁵⁴ Many of the PRA tools can be dropped or reduced in content and data intensity because much of the information are either not used by villagers and facilitators or does not have practical relevance.

2.56 Based on a recent independent evaluation report, effective village participation can be effected through involvement of villagers in selective phases of the LPP such as goal formulation and work plan preparation.⁵⁵ Other phases of the VFAP could be delegated to VDC members, village elders, and group representatives. Some villages have already experimented with selective representation but CARERE is reluctant to adopt the approach universally because of fears that the process could be captured by local authorities and village elites. While mass participation of villagers in all phases of the VFAP may be ideal, it is difficult to achieve and may not necessarily be effective unless villagers understand and actively participate in the deliberation.⁵⁶ But some decision-making must be delegated and feedback mechanism must be developed to assure that information is transmitted to and exchanged with villagers in an effective manner.

2.57 The issue of capture of project benefits by local elites is difficult to measure but it manifests itself in the selection of projects that are not public goods in nature. In its initial year, demands coming out of the LPP process were generally for infrastructure projects. In the last two years, however, there has been pressure coming out from the LPP to use LDF funds to provide credit for activities such as raising buffalo and for fertilizer. The provincial and district teams have competence in facilitating infrastructure requests but they are unprepared to provide guidance in the selection of projects that are more private in nature and that benefit specific small groups of people. Most of the credit projects tend to exclude the very poor who do not have the resources to participate in such scheme. There has been no systematic effort from *Seila*/CARERE to help local counterparts respond to issues relating to credit projects. Unless, there is clarity about the objectives and target beneficiaries of these non-infrastructure projects and about mechanisms for distributing their benefits, there is a likelihood that such benefits will be captured by those who are involved in the decision-making process.

2.58 **Capacity of CDCs/VDCs.** Facilitation and technical teams have been formed to assist the work of CDCs and VDCs in various phases of the LPP. However, for either reasons of expediency or lack of capacity by the villagers, the LPP teams have often taken on more proactive roles by doing the work of VDCs and CDCs themselves.⁵⁷ In the process, CDCs and VDCs have become dependent on them and have missed

⁵⁴ This a common comment from those villagers who admitted to not having attended a village meeting. Interviews in Pursat and Battambang provinces.

⁵⁵ Biddulph, 1999.

⁵⁶ Many villagers interviewed admitted to having sat through meetings listening and not participating.

⁵⁷ To speed up the process, some P/DFTs have filled up forms themselves.

opportunities for learning by doing. Many CDC members, for instance, have been unable to complete a project proposal form (Form 2) and some could not even comprehend the calculations for costs and local contributions. One reason is that there are overwhelming requirements of data and documentation for simple projects costing as little as \$500-1,000.

2.59 High Administrative Cost. Particularly during the initial years of adaptation and implementation of the LDF substantial technical assistance was required to build up the capacities of its local staff within CAREERE and of provincial and local level counterparts. Technical assistance cost was high due to the recruitment of expatriate consultants to undertake intensive capacity building. Since 1998, the technical assistance component has dropped dramatically and CAREERE's staff composition has become much more localized. The issue of cost remains, however, and has been shifted in part to local counterparts. In 1999, for instance, the administration and supervision has accounted for around 30 percent of total LPP investment cost.⁵⁸ The high administrative cost could be partly justified by the capacity building component of the project. Simplification of the LPP, focusing on reducing demands for data and villagers' participation in some phases of the planning process, would reduce the work load of facilitators, would enhance the learning experience of villagers and CDCs/VDCs, and hopefully, over time would reduce the need for an extensive personnel complement at the province and district levels.

2.60 Institutional Location of the LPP and Linkages with Line Ministries.

Management and implementation of the LPP has been transferred from the Ministry of Planning to the Ministry of Rural Development (MRD) working through its provincial branch offices. This move is partly explained by inter-ministerial competition and partly by CAREERE's attempt at aligning the *Seila*/CAREERE with the mandates of the central government. There is concern about the capacity of MRD to lead and to become an impartial facilitator of the LPP. While MRD's mandate has been to coordinate local development activities, it has also taken an implementation role that tends to compete for resources from other line ministries. The record of PDRD's performance varies across provinces and in some provinces, heads of PDRD have demonstrated leadership qualities that would be useful for carrying out this new mandate. MRD's active representation with the *Seila* Task Force could also influence the attitude of personnel at the operational level. It remains to be seen whether this prospective change in the institutional location of the LPP will help to improve the overall capacity of the LPP teams and to reduce the costs of running the process.

2.61 The preparation of the *Seila* Investment Plan (SIP) has re-oriented the provincial planning process more towards the *Seila*/CAREERE oriented investment planning. This shift is gradually eroding the participation of other line departments. The SIP focuses on only four major sectors, namely, education, health, infrastructure, and agriculture and effectively excludes other line departments from the process. The local plans and the PDP

⁵⁸ Based on one provincial sample. Cost elsewhere may vary slightly depending on the total investment portfolio of any given province. This administrative cost refers only to PRDC and does not include the provincial operations of CAREERE.

are not linked to the national planning system, the SEDP, nor to the national investment program, the PIP. The Ministry of Planning, while willing to get involved in linking provincial and national planning, lacks the institutional capacity and funding support to provide technical assistance.

B. Financing

2.62 **Sources of financing.** LDF funds are treated as regularized intergovernmental transfers to provinces. Like the Social Fund, LDF funds are off-budget items. The LDF is funded primarily from bilateral and multilateral grants (Table 9). Principal funding sources are UNCDF and the Swedish government through the Swedish International Development Agency. For 1997-2000, cumulative funding for LDF is projected at \$8.0 million. In 1999, the national government for the first time has contributed 800 million riels, or \$250,000 to finance LDF activities in the five *Seila* provinces. It is expected that this amount will be doubled in year 2000. Several other funding sources including the Government of the Netherlands, DFID, and the World Bank have also provided financing for LDF activities. At the central level, funds are managed in ways that conform to specific donor and government requirements, with CARERE taking overall responsibility for coordination and oversight from MEF for multilateral sources.

Table 9: Sources of funds for LDF, 1997-2000

Sources/Donor	Year/Amount (in thousand US dollars)				
	1997	1998	1999 (Estimates)	2000 (Projection)	Total
UNCDF	500,000	1,072,000	967,474	465,000	3,004,474
Sweden	360,000	215,000	165,000	260,947	1,000,947
The Netherlands		512,400	-		512,400
World Bank*			500,000		500,000
DFID*			150,000		150,000
UNDP/TRAC*		99,000	-		99,000
SFKC**			2,000,000	-	2,000,000
RGC			250,000	500,000	750,000
Total	860,000	1,898,400	4,032,474	1,225,947	8,016,821

* Funds earmarked for reconciliation areas

**Funds to be allocated for LDF and sector activities, proportion yet to be determined.

Source of basic data: UNDP/CARERE. Phnom Penh, Cambodia.

2.63 **Decentralized Financing System of the LDF.** Since August, 1999 LDF funds have been channeled through a modified *Seila*/CARERE financing system. The new system attempts to move away from being a parallel system and to align it with MEF regulations. An important aspect of the *Seila*/CARERE financial system is the transfer of responsibility for financial management and control from the center to the province through its PRDC/Excom. Funds from various funding institutions are released directly to

and managed by the PRDC/Excom.⁵⁹ The PRDC/Excom, through the provincial governor, authorizes commitments and payments on behalf of sectoral departments and communes through implementation agreements. For LDF activities, the PRDC/Excom releases the IPF allocation to the CDC or pays contractors or suppliers directly, as requested by the CDC.

2.64 The decentralized financing mechanism has already obtained currency by securing agreement from the World Bank and MEF to transfer proceeds from a World Bank grant to special accounts located in the provinces and managed by the PRDC/Excom. Under this arrangement, MEF and the provincial governor are co-signatories for fund advances and replenishment. Under a more centralized system, the MoI was the implementing agency and co-signatory with the MEF.

2.65 **Issues.** The new financial system does not consolidate into one single financial system funds from various funding institutions such as UNCDF, the World Bank, and the national budget appropriations. At the provincial level, these funds are held in various different accounts and have different reporting requirements, on top of the quarterly reports for the *Seila* Task Force. This places an enormous amount of work on the PRDC to produce reports to comply with specific donor requirements. At the national level, the proposed establishment of a decentralized development fund (DDF) to coordinate and monitor transfer of funds from the center to the provinces has been held in abeyance pending the commune elections.

2.66 The new *Seila*/CARERE financing system recentralizes authority over commitments and payments to the PRDCs away from line departments and CDCs. Although this is consistent with MEF regulations, it reduces flexibility and could potentially affect the operational efficiency and effectiveness of CDCs and line departments. An important feature of the new system is the direct payment mechanism for private service providers working on contracts for CDCs and line departments. Under this new system, the PRDC/Excom pays contractors or suppliers directly upon request of the line departments and CDCs, subject to certain documentary evidence and verification. This process could create delays in fund releases and other operational bottlenecks unless mechanisms are put in place to ensure flexibility, proper accountability, and transparency of the PRDC/Excom transactions.

2.67 The technical capacities of the PRDC/Excom and the PRDC financing units are critical issues. Technical training in financial accounting and management for the PRDC staff began in 1997 but the introduction of the new financial system, using different accounting systems and procedures will require them to start another learning phase.⁶⁰ CARERE staff who provide technical backstopping to PRDC have also had to learn and adopt the new system. The provincial Department of Economy and Finance (PDEF) is

⁵⁹ Under the previous system, funds were released directly to implementing agencies (generally line departments but also NGOs) and to the PRDC for the LDF through subproject agreements. Under the new system, line departments still maintain bank accounts but only for imprest funds. PRDC/Excom makes direct payments to contractors/suppliers.

⁶⁰ For example, shifting from single entry bookkeeping (CARERE system) to double entry is a steep learning curve for most of the PRDC staff.

working closely with the PRDCs on implementing the new financial system and is expected to eventually take over from the PRDC/finance units. However, in some provinces PDEFs are perceived to have transparency problem. Line departments are especially wary about the new set-up. The line departments' attitude, however, could be partly explained by their loss of authority to manage their own funds.

2.68 Geographic Targeting of LDF. The allocation of LDF funds is limited to five *Seila*/CAREERE provinces and, within these provinces to target communes and villages. The four northwestern provinces *Seila*/CAREERE provinces -- Battambang, Banteay Meanchey, Pursat, and Siem Reap -- were selected in 1992 because of the heavy concentration of internally displaced people and refugees. In 1996, another province was added in the northeast- Rattanakiri, one of the poorest provinces in the country. During the first and second cycles of the LDF, poverty was not the main consideration in selecting target communes. The selection was largely driven by the existence of CDCs and VDCs. Other selection factors included security and accessibility, level of commune and village development, and cooperation of local authorities. As of August 1999, 134 communes in five provinces have received LDF funds, an increase of more than four times since 1997.⁶¹ The size of a provincial allocation depends on the number of target communes in each province and favors better-off provinces like Battambang and Banteay Meanchey which have formed more CDCs and VDCs.

Table 10 : LDF Allocation by Province, 1997-2000

Province	Year/Amount					% share
	1997	1998	1999 (Estimate)*	2000 (Projection)	Total	
1. Battambang	250,000	447,000	935,000	275,000	2,007,000	25
2. BMC	250,000	625,000	980,000	120,000	2,075,000	26
3. Siem Reap	175,000	304,000	480,000	140,000	1,699,000	21
4. Pursat	185,000	307,000	722,474	80,000	1,395,821	17
5. Rattanakiri		215,000	415,000	110,000	840,000	10
Total	860,000	1,898,400	4,032,474	1,225,947	8,016,821	100

* Includes \$2.0 from SFKC; national government contribution of \$.5 million, divided equally across five provinces.

Source of basic data: UNDP/CAREERE. Phnom Penh, Cambodia

2.69 Intra-provincial allocations. There are two levels of intra-provincial IPF allocations. The first level is provincial allocations to commune and the second, is commune allocations to subprojects. The criteria for provincial allocation to commune have constantly been changed. In the first cycle of the LDF (in 1997), all communes were allocated \$50,000, regardless of size, for a three-year planning cycle.⁶² In the second cycle, the IPF allocation favored communes with higher population. There have been attempts recently to consider poverty indicators in the third cycle of the LDF. Because of

⁶¹ Target communes have more than tripled since 1997. There were 32 target communes in 1997; 80 communes in 1998.

⁶² Of the \$50,000, 50 percent was made available in the first year, or \$25,000 in the second year, and \$10,000 in the final third year (1999).

the availability of the 1998 commune database, some provinces like Battambang are using some measures of poverty both for the selection of new communes and for “graduating” communes in their final three-year IPF cycle. There has been no attempt, however, to coordinate and consolidate these individual provincial initiatives at the policy level.

2.70 The second level of the allocation is by communes to projects, taking into account competing needs of the villagers. Several criteria have been introduced to help CDCs make decisions using a set of multiple criteria including the number of families, the number of female-headed households, and the amount of support already provided by NGOs and other organizations. Over time, these criteria have been further elaborated.⁶³ However, CDCs have generally not been able to use many of these criteria partly because some are too complicated to operationalize at their level and also because of lack of training in the use of these criteria. It seems that the primary consideration for VDCs and CDCs in selecting subprojects has been their cost, with preference for smaller subprojects.⁶⁴

2.71 In the past, communes usually fund one project per village. Subprojects that were selected tended to be micro-level infrastructure such as culverts, wells, small bridges and roads. UNCDF pushed for more commune-level projects to leverage the IPF and for purposes of administrative efficiency. There were attempts at facilitation to develop more commune level projects and indeed there are now commune based projects. In the first two cycles, there was difficulty in convincing CDCs and VDCs that they move beyond village-focused projects because there was considerable pressure from villages to have their projects funded. Commune level projects also have had practical difficulties relating to a free rider problem. An example is a road project that cuts across several villages. This project has high externalities benefiting those who do not contribute to its construction and maintenance. In such a case, VDCs and CDCs find it more difficult to convince and mobilize support from several villages which may have varying perceptions about benefits of a subproject. Some communes, however, have come up with creative ways for dealing with this issue by requesting monks to collect contributions from villagers. Recently, some communes in the third and final cycle of their IPFs are finally experiencing real hard budget constraints and are now making decisions based on the overall impact of the project rather than to individual village demands. It is also possible that the demands from individual villages have already petered out.⁶⁵

C. Implementation

2.72 The experience of the LDF projects provides a counterfactual argument that project execution by local communities necessarily leads to reduction in cost. In the past, CDCs and VDCs were both the project owner and the implementing agency. This dual

⁶³ See for instance the screening and ranking criteria from Battambang, Memo of 25 June 1999.

⁶⁴ When asked how they choose a subproject, the most common response from VDCs and CDCs is “it depends on the size of the project.”

⁶⁵ Leonardo (1999) made this observation in the case of the LDF in Viet Nam.

responsibility led to problems about the overall technical quality of projects primarily because CDCs and VDCs generally do not have sufficient technical know-how and experience. Projects implemented by CDCs and VDCs often suffer major delays because villagers did not work full-time on the project and were generally not cost-effective. There have been cases reported of projects being subcontracted. Generally, however, there have been few cases of mismanaged projects primarily because of the regular presence of project monitors.

2.73 Beginning in 1998, *Seila/CARERE* introduced a new policy requiring that all projects costing \$1,000 or more should be awarded through simple competitive bidding.⁶⁶ The experience so far suggests that the technical quality of projects is better and more cost-effective for contracted projects than for those that have been undertaken by the villagers themselves. Projects that were bid out have realized significant cost-savings by as much as 10 percent of the estimated project cost.⁶⁷ Under this contracting procedure, a direct line of accountability is established between the contractor and the project owner. When mitigating measures have to be made, there is a clear line of responsibility to the party who should do them. This form of redress was not enforceable when the CDC and VDC had to monitor themselves.

2.74 Under the new procurement procedure, the CDC conducts the bidding with assistance from the provincial technical support team (TSS) and awards the contract to the lowest bidder. The work of the contractors is monitored through the technical subcommittee of the VDCs and CDCs and through the TSS of the PRDC/Excom. Contractors are paid in three installments, upon clearances from the VDC through the village chief, from the technical subcommittee and from the TSS. The PRDC/Excom release funds through its finance unit to the CDC upon receipt of requests for payment, and the CDC in turn releases funds to the VDC to pay the contractor. Alternatively, the CDC could request the PRDC/Excom to release funds directly to the contractor.

2.75 Local contributions to LDF projects have created a sense of ownership among beneficiaries. In the past, although some form of local contributions was mandatory, there was no provision for a minimum amount of contribution nor stipulation on the division between cash and in-kind contribution. Some projects in earlier years, particularly during the first cycle, seem to have received mainly in-kind contributions, mostly labor and materials. The level of local contribution has ranged from 3 percent to 66 percent, depending mostly on the project type.

2.76 However, a new policy requiring cash contributions of at least 3 percent has raised issues about mobilizing support for particular types of projects and questions about the proper recording of local contributions. In October 1998, *Seila/CARERE* set out a policy stipulating a local contribution of 10 percent of the LDF of which 3 percent had to be in cash and 7 percent in materials and labor, except unskilled labor. This new policy has raised concerns from local counterparts about the difficulty of collecting the 3 percent

⁶⁶ Some problems are encountered when communes are remote and projects are small and therefore have fewer incentives to attract enough bidders.

⁶⁷ According to CARERE Infrastructure advisor. See also Main Phase Evaluation report, September 1999.

cash requirement. In Battambang, for instance, there are accounts that some CDCs had to borrow money to get the 3 percent up-front cash contribution. There are two possible explanations for these difficulties. The expectations might have been too high. Past records may have been inflated and therefore, may have given a false impression that villagers could easily provide a minimum 3 percent cash contribution.⁶⁸ Another possibility is that cash contributions were collected too late. When local contributions are collected way past harvest time, villagers are not likely to have any more cash left to contribute.

D. Sustainability

2.77 Operation and Maintenance. The establishment of maintenance subcommittees is one of the pre-requisites for obtaining funds from the LDF. However, not all of these subcommittees are operational, and some of which are operational are underperforming. *Seila/CARERE* has not been able to follow-up the work of these committees, to organize them, and to provide them training. So far, there has been no major repair work needed for many of the roads, bridges, and culverts but there are already signs that in the next year or two some of the roads will require major repair work if not properly maintained. In the meantime, much of the maintenance work has been done on an ad-hoc basis.

2.78 Based on impressionistic evidence, projects which have been maintained despite lack of follow-up are those which have produced benefits. Many of those who have benefited have participated in their selection and provided local contribution and thus, have gained a sense of ownership towards the projects. For public goods project like roads, VDC members and/or village elders have been able to collect small sums of money from villagers to purchase gravel or to request big truck owners to provide filling materials. For semi-private goods, households next to wells have taken the responsibility for maintaining them, and in a few cases, maintenance subcommittees have been able to collect from a community of users to undertake minor repairs.

2.79 In the long run, however, there has to be a sustained effort to utilize these maintenance subcommittees properly. Villages and communes should be trained and required to prepare maintenance plans along with their financing requirements. The PRDC, through the LPP teams, should provide support and advice to VDCs and CDCs on how they can mobilize community resources for regular maintenance funds. VDC members have presented ways to collect funds for repair and maintenance including using proceeds from communal lands, holding traditional village festivals to collect contributions, and collecting user fees for well and road projects. Alternatively, some villagers are considering approaching another funding agency for funds to assist their major repair work. The maintenance subcommittees need guidance and supervision on how the money should be collected and used. Many of the subcommittees that have been

⁶⁸ In some provinces, cash and in-kind contributions are not recorded separately. Random sampling of records on local contribution indicates problems of valuation of labor contributions. Lack of standardization to measure the value of labor for a specific type of work or activity could lead to overvaluation or undervaluation of labor contribution.

able to collect money from villagers for minor repair work have not recorded amounts nor informed those who contributed how the money was used.

Accountability

2.80 It is difficult to determine with certainty whether accountability exists. There is impressionistic evidence suggesting that through the LPP greater accountability has been established between provincial and lower level authorities and between local authorities and communities. The LPP process has put in place mechanisms that enable greater interaction between communities and local authorities in areas ranging from goal formulation and project selection to project implementation. These processes have increased awareness among villagers that they can make demands upon local authorities and put pressure on them to respond to their demands. This is clearly evident in the allocation of the commune IPFs where CDCs have been pressured to fund projects in each village instead of implementing projects at the commune level. Another indication that villagers have learned to express their dissatisfaction is voting out VDC members who have not performed well.⁶⁹ By working through established structures, the LDF has been able to draw clear lines of authority and responsibility in decision-making and resource allocation. By doing so, communities and lower levels of authority know who should be held accountable for certain decisions. Generally, CDCs and VDCs communicate their concerns or dissatisfaction with certain decisions by PRDC through the LPP teams and during public meetings and workshops, such as during the LPP annual review. In some cases, VDC members who have been dissatisfied with decisions made by CDCs have taken the issues directly to the latter.

F. Local Capacity Building

2.81 The *Seila*/CARERE project has provided intensive capacity building to PRDC/Excoms to manage decentralized funds, to allocate resources to communes and sectors, and to provide guidance and supervision to LPP teams. Moreover, it has been able to build the capacities of the provincial/district planning facilitators and technical support teams to assist communes and villages in plan formulation, project proposal and technical design adaptation, procurement, and project monitoring. Recently, CARERE has been conducting workshops for contractors to ensure that they are familiar with the *Seila*/CARERE procurement requirements and technical design specifications.

2.82 During the first two planning cycles, intensive training and on-the-job learning was provided to local counterparts largely by expatriate advisors. Institutional support and backstopping came from UNCDF/AIT/MIT as well as from outside providers such as local NGOs. In recent years, training for local counterparts has been provided by the local staff of CARERE itself. Training for contractors has been conducted mainly by CARERE's infrastructure advisor.

⁶⁹ VDCs were elected for the first time in 1996; and subsequently, members are elected every three years. The second VDC elections have already been held in Pursat province and there have been cases where non-performing members were not reelected.

2.83 Much remains to be done, however, in building the capacities of PRDC/Excoms in financial management and resource allocation. The provincial and district facilitation teams need continuous training on facilitation while the technical teams need to improve their skills in technical design adaptation, procurement process, project proposal preparation, and monitoring. Moreover, there is need for more structured training for CDCs/VDCs in organizing, facilitation, basic project proposal formulation, and maintenance. While there have been many opportunities for on- the- job learning, this approach does not seem to have worked well in building the confidence and capacity of lower level authorities.

E. Efficiency

2.84 **Technical quality/Cost-effectiveness.** Based on technical assessment for two provinces, Battambang and Banteay Meanchey, around 80 percent of the LDF projects were rated acceptable. Technical quality varied according to the type of projects. The most problematic were laterite and earth roads. Water supply projects seem to have been also plagued with technical quality problems based on impressionistic evidence in Pursat province. The LDF projects have been cost-effective in culverts and latrines compared to those of the SFKC (see Table 7).

2.85 **Approval process.** Overall processing time from planning to project approval has been around 5-6 months. It takes about 2-3 months' time between submission of project proposal by VDCs to project approval by PRDC/Excoms. There are several reasons for such delays including bunching-up of proposals by communes, incorrect proposal preparation, and difficulty in convening the PRDC/Excom.

2.86 **Administration and supervision costs.** In 1999, the administrative cost of running the LDF has been around 30 percent of its investment portfolio. This figure was even higher in previous years. The primary reason is that a substantial personnel complement is required to manage the LPP. Supervision is 3 percent of the project cost which is divided between VDCs and CDCs.

IV. Implications and Conclusions

A. Impact

2.87 **Service Delivery.** The SFKC and the LDF have provided services that meet the basic needs of local communities. Projects such as roads, schools, irrigation systems, and water supply have helped to improve the lives of people in many poor communities. The experiences of both the SFKC and the LDF have shown that the quality of services or benefits derived from a project is the key to ensuring its long-term sustainability. The quality of service delivery seems to be better under the LDF because of a relatively high degree of participation in decision-making, in local contributions, and in monitoring by stakeholders.

2.88 **Poverty Targeting.** The SFKC allocates funds to the provinces using population adjusted for poverty levels. It has been able to provide funding for worse-off provinces that normally cannot get funding from other sources. The LDF, on the other hand, has focused its assistance to the five *Seila*/CARERE provinces and to target communes and villages based on non-poverty related criteria such as accessibility and security. The concentration of assistance within the *Seila*/CARERE areas has created far more extensive local public assets and local capacities there than exist in other areas in the country. However, neither the SFKC nor the LDF have addressed the issue of intra-provincial disparities.

2.89 **Project Mix.** Both the SFKC and the LDF have a similar project mix, supporting rural roads, school buildings, water supply, and irrigation systems. The SFKC has also experimented with so-called innovative projects such as a piped water system and a sewage system but these have not worked out well.⁷⁰ Under SF2, the SFKC is exiting from social sectors such as education and health in favor of prioritizing economic infrastructure such as irrigation systems and rural roads. Line ministries working through other donor agencies, have been able to provide funding for schools and health centers, but have not had sufficient funds for supporting irrigation and rural roads. The LDF, on the other hand, has been financing activities such as provision of credit for buffalo raising and for fertilizer. Funding for non-infrastructure projects has been made in response to preferences coming out of the local planning process. However, the current design of non-infrastructure projects has tended to not benefit the poor. There is need to re-examine whether such projects have to be provided by local governments or can be better handled by the private sector and other alternative service providers such as NGOs.

2.90 Both the SFKC and LDF have experienced persistent problems in water supply projects in technical quality and, subsequently, in maintenance. However, both the SFKC and the LDF have continued to fund them because of high demand from local communities. Wells are generally easy and cheap to construct and can be quickly replicated although sometimes at the expense of water quality. Technical and sustainability problems could be minimized if both the SFKC and the LDF would build fewer but better quality wells.

B. Conclusions

2.91 Lessons emerging from this comparative study point to the need of donor-financed projects for coherent institutional framework which promotes decentralization. The LDF has demonstrated that working through rural development structures and coordinating with line ministries and local institutions such as NGOs in the planning, financing, and implementation of projects fosters accountability and increases sustainability. The SFKC under SF1, on the other hand, worked within a rehabilitation framework that maintained only nominal relations with local governments, line ministries and other local institutions; this framework did not assure adequate accountability or sustainability. In the future, the SFKC may need to consider sharing or reallocating some

⁷⁰ According to the Beneficiary Assessment report of 1998; interview with Promotions Director, SFKC.

of its functions of appraisal, monitoring, and financing to local governments to ensure more ownership and greater sustainability of projects.

2.92 Linking planning to financing promotes allocative efficiency and fosters greater interaction and cooperation between local authorities and deconcentrated line ministries. Under the LDF, local plans have been used as instruments for articulating and prioritizing local preferences and for accessing decentralized funds managed by local authorities. Local plans, however, can be effective instruments only as long as regular financing is allocated for their preparation and implementation and provided they are utilized by other funding agencies and the central government in making investment decisions. The SFKC under SF2, through its co-financing agreements with other donor-financed programs such as the *Seila*/CARERE project, will be financing projects identified through the local planning process. The SFKC, however, has yet to establish mechanisms for linking individual applications with local community preferences and with local government and line department priorities. The SFKC may need to establish mechanisms in its project appraisal phase to incorporate consultation with local communities and coordination with local government and line ministry priorities.

2.93 A high degree of intra-provincial disparities requires that both the SFKC and the LDF may need to consider poverty-oriented targeting at the sub-provincial level. The SFKC has already indicated plans to undertake targeting at a district level but its approach has not yet been articulated. Some of the five *Seila*/CARERE provinces are developing poverty criteria for selecting new target communes and for “graduating” communes which are already in their third cycle. However, there has not been an articulated policy on how overall sub-provincial poverty targeting should be undertaken in the five provinces. The recent availability of subnational data on population and poverty indicators could provide adequate benchmark information for the SFKC and the LDF to undertake sub-provincial poverty targeting.

2.94 Building local capacities and providing financial support are key to ensuring that decentralized systems work. The LDF has provided intensive capacity building to various levels of rural development structures to implement decentralized systems of planning, financing, and management. At the same time it has provided financial support to run these decentralized systems. Some of the instruments used by the LDF in the local planning process are data and document intensive, and therefore are beyond existing capacities of local counterparts. The LDF will have to further refine and simplify its procedures to generate effective participation and to ensure that capacities of these local institutions are developed according to their potentials and their evolving functions and responsibilities. Further simplification of the planning process would have positive implications for reducing administrative costs, for enhancing the learning experiences within the rural development structures, and for increasing possibilities for the LDF approach to be mainstreamed throughout the rest of the country.

2.95 The mainstream view has been that a more process-oriented approach to project selection and implementation could potentially delay rapid production of outputs. But the performance of the LDF seems to contradict this view. The LDF turn-around-time for

project approval and project implementation are comparable to those of the SFKC. On the other hand, the transfer of responsibilities to decentralized systems entails higher operating costs for local governments and also greater investments in local capacity building; these translate into higher overhead costs for the LDF.

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Annex 1:**Persons Interviewed:****Central Level:**

1. Belhaj Amor Moncef, senior advisor to the MEF
2. Chanthy, Bilateral Unit, MEF and focal point, *Seila Task Force*
3. Ching Montha, Chief of the PIP
4. Chris Chamberlin, Task Manager, World Bank
5. Christine Mansfield, Consultant, Beneficiary Assessment for SF1
6. Chum Bun Rong, General Director, SFKC
7. Dararith, Supervision Director, SFKC
8. Gerardo Carranceja, CTA, CDC
9. Hou Tang Eng, General Director of the Ministry of Planning
10. Joel Charny, CAREERE
11. Legal Director, SFKC
12. Lev Bunhay, Deputy Director of the Budget, MEF
13. Ly Thuch, Secretary of State, MRD
14. M.S. Shivakumar, Sustainability Advisor, SFKC
15. Nil Vanna, Promotions Director, SFKC
16. Or Vandine, Min. of Health
17. Peter Swift, Team leader, Beneficiary Assessment for SF1
18. Pok Thon, Sec. Of State, Education (phone interview)
19. Sao Phalla, Appraisal Director, SFKC
20. Sao Samnang, MIS Director, SFKC
21. Sar Samnang, Finance Director, SFKC
22. Scott Leiper, CAREERE
23. Tim Greyling, ADB Consultant
24. Vong Bunintreavuth, Program Coordinator, World Bank Unit, MEF

NGOs

1. Mr. Robbert Van Den Berg, Programme Manager, Concern, Pursat province
2. Mr. Andy Leigh, Manager, World Vision, Battambang province
3. Mr. Monychenda Heng, Buddhism for Development, Battambang province
4. Catholic Relief Services
5. LWS
6. Huripruda (local NGO)

Donor agencies:

1. Henk Bekedam, WHO
2. Martin Orth, GTZ
3. Frederic Urfer, PRASAC/ EU
4. Daniel Asplund, SIDA Resident Representative

Province Level:**Pursat province.**

1. Ung Samy, Provincial Governor of Pursat and ex-governor of Battambang
2. District education chief, Bakan district
3. School director, O Ta Paong Primary school, Bakan District
4. Village chief, Spean, Kaon Chum commune, Bakan District
5. District chief, Sampov Meas district
6. District education chief, Sampov Meas district
7. Director of the Department of Health
8. Chief of Planning Unit, Provincial Department of Education

9. CDC member, Krakor district
10. Village chief, Kandieng district
11. Sophal Chhor, PPM, Pursat
12. Mr. Chhun Song, PRDC Chief Secretariat
13. LCB team, CARERE
14. Infrastructure NPPP
15. DFT (2), Kandieng district
16. Julian Abrams, Infrastructure Advisor, CARERE

Battambang Province

1. Chief of planning unit, Education department
2. Chief of planning unit, Health department
3. District education chief, Bavel district
4. District education chief, Battambang district
5. 2 School directors
6. Deputy district chief, Banan district
7. Deputy commune chief
8. TSS member of the PRDC and ex-subcontractor for SFKC project
9. Joanne Morrision, PPM, Battambang/CARERE
10. PRDC Chief Secretariat
11. Director, PDRD
12. LCB team
13. Irene Peterson, M&E advisor
14. Infrastructure Advisor
15. Infrastructure NPPP

Projects visited:

1. Wells, Pursat and Battambang
2. School building, Pursat and Battambang
3. Roads and culverts: Pursat and Battambang
4. Water gate, O'Sandan commune, Krakor district

Annex 2 : Provincial Expenditures and Transfers, 1999

Province/City	Expenditures	Transfers	% of Trans. to T. Exp.
Phnom Penh	6612	-2269	-34
Kandal	2614	809	31
K. Cham	2269	377	17
Battambang	1731	1096	63
Prey Veng	2039	1583	78
Siem Reap	1878	1085	58
K. Thom	1061	846	80
Takeo	1289	791	61
Svay Rieng	1267	994	78
Pursat	1375	1117	81
K. Chhnang	1030	632	61
K. Speu	1291	864	67
Kampot	1264	965	76
Sihanoukville	1530	-	-
Koh Kong	712	296	42
Preah Vihear	882	842	95
Kratie	848	542	64
Rattanakiri	983	782	80
Mondolkiri	844	682	81
Banteay Meanchey	1281	956	75
Stung Treng	806	715	89
Kep	683	584	86
Pailin	711	711	100
Total	35000	15000	

Source: MEF