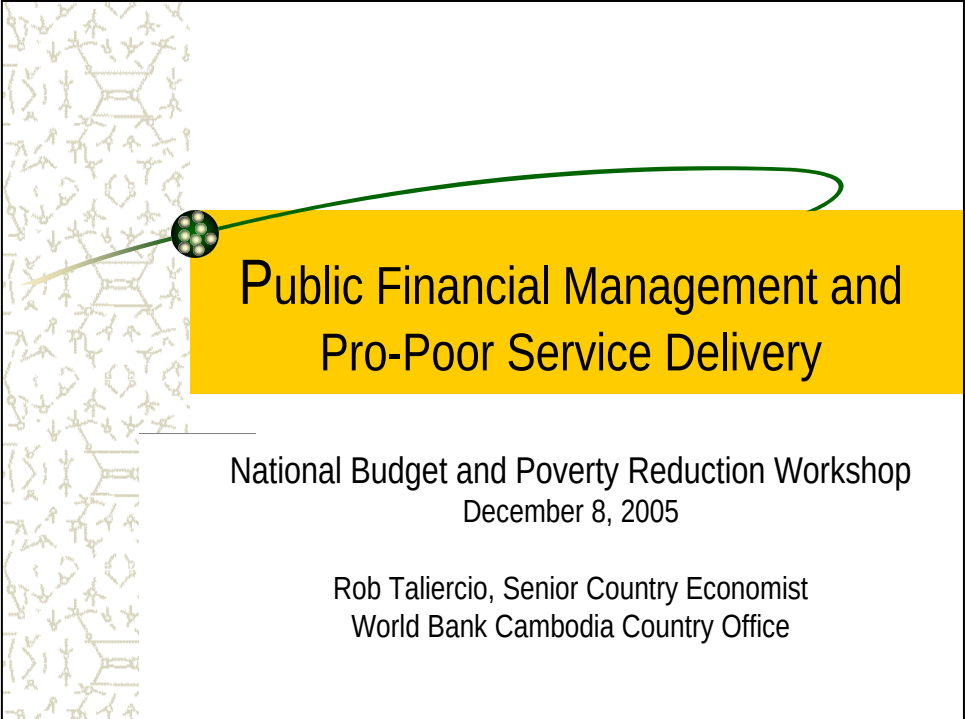
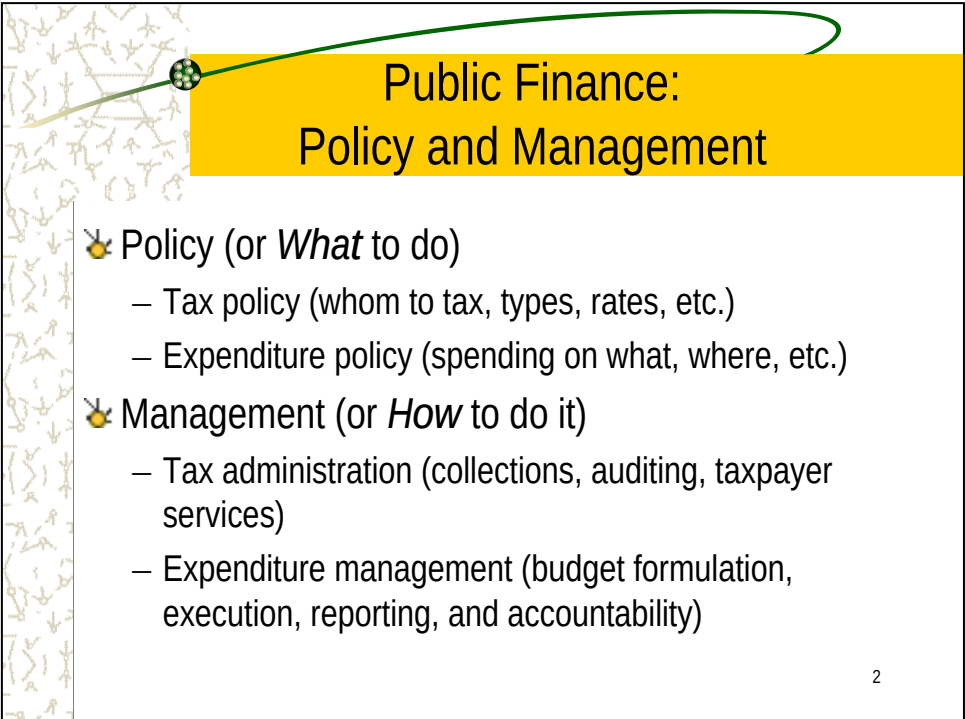




Public Financial Management and Pro-Poor Service Delivery

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Public Finance: Policy and Management

- ✦ Policy (or *What* to do)
 - Tax policy (whom to tax, types, rates, etc.)
 - Expenditure policy (spending on what, where, etc.)
- ✦ Management (or *How* to do it)
 - Tax administration (collections, auditing, taxpayer services)
 - Expenditure management (budget formulation, execution, reporting, and accountability)

Public Financial Management (PFM)

- ✦ PFM—improving institutions and management arrangements for better resource collection, allocation, and use
 - The budget should be a reflection of society’s values and preferences
 - Broad term used to refer to both the tax and expenditure sides of the budget
 - Generally refers to both budget preparation and execution (that is, actual spending)

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Three ‘levels’ of PFM

- ✦ Aggregate fiscal discipline
 - Is the budget in surplus or deficit?
- ✦ Strategic allocation of resources to priorities
 - Are resources spent on the right sectors?
- ✦ Efficient use of resources in implementation
 - Are services produced efficiently (for example, cost-effectiveness)?

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Service delivery and the budget: the problem

- ✦ Budget allocations are poor predictors of the actual quantity and quality of public services
- ✦ There are often gaps between spending and service delivery
 - Especially in countries with weak institutions and poor accountability arrangements

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Cambodia's Situation Today

- ✦ *Our view:* Public financial management (PFM), as a weak system, constitutes the primary bottleneck to delivery of pro-poor services, and because limited accountability in the collection and use of public monies, as well as the institutionalization of rent-seeking, undermine the state's ability to meet basic needs and foster human development.

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2003 IFAPER Findings

- ✿ *Integrated Fiduciary Assessment and Public Expenditure Review (2003)*, a joint WB-ADB report, found:
 - The critical test of a public expenditure management system is its ability to deliver a predictable and timely flow of funds to the spending agencies, allowing flexibility in the application of resources while ensuring adequate control at a sectoral and aggregate level.
 - *Cambodia's system does not currently meet this test.*

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IFAPER's Four Key Findings

- ✿ Resource mobilization must be improved to ensure fiscal sustainability, poverty reduction and growth;
- ✿ Weaknesses in the public financial management system create unacceptably high levels of fiduciary risk to public funds;
- ✿ In order to meet the poverty reduction targets the Government will need to improve the effectiveness of public spending by more tightly linking it with priority outcomes and by reallocating resources from lower priority sectors, programs, and functions;
- ✿ Given the serious problems afflicting the civil service—low pay, low skills, and thus low capacity—strategic civil service reform is necessary.

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Cambodia's PFM Reform Program

- ✦ The Ministry of Economy and Finance (MEF) has developed a Public Financial Management Reform Program (PFMRP), which presents a detailed, prioritized, and sequenced action plan for public financial management reform.
- ✦ The PFMRP was endorsed by the Prime Minister and launched at the December 2004 CG Meeting.
- ✦ The PFMRP is supported by ten development partners working together.

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Objective of the PFMRP

- ✦ To establish much higher standards of management and accountability in the mobilization of all government current and capital resources and effectiveness and efficiency in the use of resources in their application to the NSDP.
- ✦ The RGC recognizes that reaching the vision is going to be a long term undertaking—about 10 years—but that it is a prerequisite for improved pro-poor service delivery.
- ✦ It is important, therefore, to identify stages in the process of reform at which the Government will assess whether well-defined intermediate objectives have been reached before proceeding to the next stage.
- ✦ There are 4 stages/platforms.

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Platform/Stage 1

- 💡 **A more credible budget:** The RGC will strive to achieve a position in which the budget becomes more credible as an instrument of strategic and day to day management of public resources, because it delivers a reliable and predictable resource to service providers.

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Platform/Stage 2

- 💡 **Effective financial accountability:** Having removed excuses for non-compliance or inappropriate practices by budget holders, the RGC will turn on tightening arrangements for bringing budget holders to account and for rewarding good practice by improving internal control and accountability systems.

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Platform/Stage 3

- 💡 The RGC's policy agenda becomes fully affordable and prioritized: Developing techniques and capacities for analyzing the budgetary impact of policies and for connecting policy priorities and service targets to budget planning and implementation, thereby assuring that government policies are fully affordable and prioritized.

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Platform/Stage 4

- 💡 Managers become fully accountable for program performance: Having reinforced the stability, soundness and policy orientation of budget planning and management practices, the RGC will start to hold budget managers accountable and rewarding them for achieving agreed objectives and standards of performance, resulting in greater external transparency and more effective policy formulation.

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Platform 1 Activities

- ✦ Platform 1 promises to make the budget credible by ensuring that it delivers resources reliably and predictably to line ministries. In order to do this, the Government intends to:
 - improve the comprehensiveness and integration of the budget (in formulation and execution);
 - improve the realism of the budget in terms of forecasting and debt management;
 - strengthen tax and non-tax revenue collection;
 - streamline the ability of resource managers in the line ministries to spend in accordance with their budget allocations;
 - reign in extra-budgetary spending;
 - strengthen procurement procedures;
 - enhance coordination and decision making within MEF, in part by introducing motivational and capacity development measures.

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Donor Support to the PFMRP

- ✦ Pooled support from AusAID, DFID, EC, Sida, and the WB through a PFM Trust Fund and a WB Project Grant
- ✦ ‘Bilateral’ support from IMF, French cooperation, Japan, ADB, UNDP
- ✦ WB and other donor co-financiers are providing budget support in 2006 through a Poverty Reduction Support Operation (PRSO), which has a PFM component focusing on budget execution, procurement, budget formulation, and civil service reform

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The Public Expenditure Tracking Survey (PETS)

- ✦ The “breaks in the chain” approach (WDR 2004) between budgets and services
 - (a) spending on the wrong goods or people
 - (b) failure of funds to reach frontline service providers [PETS]
 - (c) weak provider incentives for service provision
 - (d) demand-side failures that prevent households from taking advantage of service provision.

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What is a PETS?

- ✦ PETS is a survey that tracks the flow of resources through bureaucratic strata to determine how much of the resources allocated reaches each level
- ✦ Can locate and quantify capture, leakage, and problems in deployment of human/in-kind resources
- ✦ Can also be used to evaluate impediments to reverse flow of information used to account for actual expenditure

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Cambodia PETS: findings 1

💡 Do resources reach schools?

- The survey found that reported leakage in PAP 2.1 (primary schools' operating budgets) is low, but also found that the PAP system is characterized by low quality record keeping, thereby limiting the robustness of the empirical findings
- “Facilitation fees”—informal cash payments to secure funds release—which were found to be widespread but relatively small (1.2% on average)

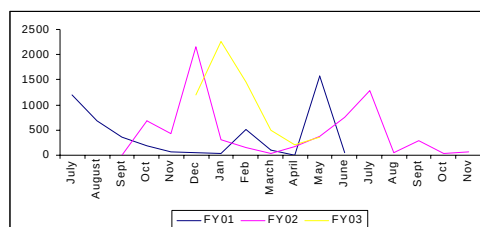
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Cambodia PETS: findings 2

💡 When do resources reach schools?

- Though the findings suggest that schools receive most of the funding to which they are entitled, they do not, however, receive it in either a timely or predictable manner

Flow of PAP 2.1 per pupil disbursements for the average school



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Cambodia PETS: findings 3

✶ Are officials accountable?

- The survey found that the social accountability mechanisms established at schools to monitor PAP spending are not very effective, particularly in small schools

Table 4. Awareness of teachers, SSC members, and parents about PAP

Respondents	Know what PAP is	Know about the R6,000 per student component (out of those who know PAP)	Know about the R500,000 per school component (out of those who know PAP)	Know that there are spending guidelines (out of those who know PAP)	Know the details of the guidelines (out of those who know about the guidelines)
Teachers	97%	56%	25%	90%	21%
SSC members	83%	27%	14%	72%	7%
Parents	9%	0%	0%	n/a	n/a

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Cambodia PETS: findings 4

✶ Trust in the System?

- The survey found that compliance with key record-keeping requirements has been poor, especially at DEO and school levels, resulting in a system characterized by high fiduciary risk
- Field inspections and follow-up activities to monitor PAP implementation are of limited reliability
- Though the PAP reporting system is fairly well designed, the lack of incentives to comply with record keeping, reporting, and inspection activities has frustrated Government's attempt to reduce fiduciary risk

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Cambodia PETS: findings 5

✦ Has PAP mattered?

- The analysis finds that the allocation of PAP 2.1 funds is pro-poor, while the timing of disbursements tends to be more wealth neutral
- There have been significant improvements in the basic education sector over the past five years, particularly in terms of primary net enrollment rates, and it appears that PAP 2.1 has contributed to this

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Cambodia PETS: findings 6

✦ Does PAP outperform the regular system?

- ✦ The survey confirms the hypothesis that nearly all Chapter 11 resources are spent and consumed by PEOs, despite the intention that Chapter 11 resources be used to complement PAP 2.1 funds at the school level
- ✦ An analysis of Chapter 11 spending shows that though intended for operations and maintenance, a large share is actually spent on remuneration of various sorts
- ✦ The multiplicity of bureaucratic requirements creates long delays in the budget execution process and opportunities for capture

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The World Bank's Role in Cambodia

- ✦ New Country Assistance Strategy, 2005-2008, identifies governance as the main obstacle to sustainable poverty reduction in Cambodia and supports
 - Private Sector Development
 - Natural Resources Management
 - Public Financial Management
 - Decentralization and Accountability

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Types of World Bank Support

- ✦ Analytical Work (e.g., Investment Climate Assessment, IFAPER, PETS, Gender Assessment, etc.)
- ✦ Projects (e.g., in 2005 Education Sector Support Project, US\$ 28 million, and Trade Facilitation and Competitiveness Project, US\$ 10 million)
- ✦ Annual Poverty Reduction Support Operations (PRSOs), based on prior actions by the RGC

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