

CAMBODIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: CAMBODIAN RIEL (KHR)

POPULATION AND GEOGRAPHY

Area: 181 040 km²**Population:** 16.005 million inhabitants (2017), an increase of 1.6% per year (2010-2015)**Density:** 88 inhabitants / km²**Urban population:** 23% of national population (2017)**Urban population growth:** 3.3% (2017)**Capital city:** Phnom Penh (12.2% of national population)

ECONOMIC DATA

GDP: 64.2 billion (current PPP international dollars), i.e. 4 009 dollars per inhabitant (2017)**Real GDP growth:** 6.8% (2017 vs 2016)**Unemployment rate:** 0.2% (2017)**Foreign direct investment, net inflows (FDI):** 2 788 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 21.9% of GDP (2017)**HDI:** 0.582 (medium), rank 146 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Cambodia is a unitary country with a three-tiered subnational government system. The country is organized as an elective constitutional monarchy with a monarch, chosen by the Royal Throne Council, as head of state. The head of government is the Prime Minister. The bicameral Parliament consists of a lower house, the National Assembly and an upper house, the Senate. The 117 members of the National Assembly are directly elected for five-year terms, while the Senate members are elected by the commune councillors from the 24 provinces of Cambodia (except for 4 of them who are appointed by the king and the national Assembly). Executive power is vested in the Council of Ministers, headed by the Prime Minister and whose members are elected by the National Assembly to five-year terms.

The subnational governance arrangements (SNA) are acknowledged in the constitution adopted in 1993 (Chapter 1 Article 6 and Chapter 11 articles 126 and 127). Over the last 20 years, Cambodia has embarked on several major initiatives in relation to decentralization. Importantly, in 2001, the Government adopted two watershed Organic Laws: The Law on the Administration Management of Commune/*Sangkat* and the Law on the Election of the Commune/*Sangkat* Council, which led to the first elections to the commune and *sangkat* councils in 2002. The advancement of the the legal framework for subnational governance was put forward by the national government with the 2005 Strategic Framework for Decentralization and Deconcentration, overseen by the National Committee for Decentralization and Deconcentration (NCDD) and under the auspices of the Ministry of Interior. In general, the Deconcentration methodology and process have entailed the creation of line ministries in each administrative level. The 2008 Organic Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khans* establishes the functions and sets out the finance provisions of the capital city, provinces, municipalities, districts and *khans*.

Local administrations and agencies are accountable upwards to the Royal Government for the implementation of the delegated functions. The Department of Local Administration (DoLA) oversees districts, municipalities and *khans*, while provinces and the capital city are under the supervision of the General Department of Local Administration (GDoLA) and the Secretariat for Subnational Democratic Development.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	1 410 Communes 236 <i>Sangkats</i>	159 Districts 26 Municipalities	24 Provinces 1 Capital city	
	Average municipal size: 9 600 inhabitants			
	1 646	185	25	1 856

OVERALL DESCRIPTION. Cambodia is made up by its capital city, 24 provinces, 159 districts, 26 municipalities, 1 410 communes and 236 *sangkats*. The capital city, provinces, municipalities, districts and *khans* are administered by councils and boards of governors at each territorial level. The councils are the legislative body while the boards of governors are the executive body. The number of council members depends on population density of the given territory. The council decides on and approves investment programs, development plans, annual budget plans and public security matters by approving *deika* (by-laws). In addition, the Ministry of Interior recorded a total of 14 168 villages, which are not part of the territorial administration scheme.

COMMUNES AND SANGKATS. The communes are the administrative territories located in rural areas, whereas *sangkats* are the lowest tier of government in the capital city. The estimated average population size for each commune is 9 600 inhabitants. Communes and *sangkat* councils are directly elected for five-year terms and they in turn elect the members of the councils of the capital city, the provinces, districts and *khans* through a proportional electoral system and a candidate list.

DISTRICTS AND MUNICIPALITIES. The intermediary level of administration comprises districts, municipalities and *khans*, as set out in the 2008 organic Law on Subnational Administrations. Districts are rural administrative territories while municipalities are generally located in provincial capitals. *Khans* are the districts of the capital city. Districts, municipalities and *khans* have indirectly elected councils, which embody the legislative power, as well as an appointed board of governors, headed by an executive governor, which holds the executive power.

PROVINCES AND CAPITAL CITY. The regional level in Cambodia includes 24 provinces and the capital city, Phnom Penh, which is considered a special autonomous territory. Provinces are the highest administrative units and oversee all aspects and business of subnational governments. All provinces have indirectly elected councils and are headed by an appointed Governor. Phnom Penh is the most populous territorial unit at the regional level, with approximately 1.5 million inhabitants, followed by the provinces of Kandal and Battambang, with approximately 1.2 and 1 million inhabitants, respectively. Provincial administration is in charge of providing the strategic framework within which districts, municipalities and khans may draft local plans and take decisions. Moreover, provincial administration is responsible for putting in place adequate mechanisms for the oversight of human resources as well as for building up the capacity of local systems to perform their assigned functions.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2008 Organic Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khans* regulates the responsibilities assigned to such territorial bodies, which are mainly restricted to budget and management duties. The roles of commune and *sangkat* administrations are outlined in chapter 4 of the 2001 Law on Commune/*Sangkat* Administration. Responsibilities are mainly limited to the maintenance of security and public order and to the promotion of citizens' well-being on a broad level (Art. 43). Although the government has conducted various functional reassignment studies for key social and economic ministries, legislation has only been passed to transfer functions of primary health care access and waste management from central government to the district level SNAs. Budget control, management and fiscal transfers for SNA remains under the control of the Ministry of Finance and with the line ministries for sector-based services. In essence, the subnational governance system is deconcentrated and not decentralised. To date, only three functions have been transferred through government decree, namely waste management, access to primary health care and pre-school education and kindergartens.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGION (PROVINCES / CAPITAL CITY)	INTERMEDIARY (DISTRICT / MUNICIPALITIES / KHANS)	MUNICIPAL (COMMUNES / SANGKATS)
1. General public services	Public buildings and facilities		Administrative services (marriage, birth, etc.); Public buildings and facilities
2. Public order and safety	Regional Firefighting services		
3. Economic affairs /transports	Regional roads, railways, airports and ports, inter-city and regional railway transport, pupils' transports; Employment services; Support to local enterprises and entrepreneurship; Agriculture and rural development; Regional tourism	Rural roads; Rural Drainage and Sanitation Systems	Rural roads; Rural Drainage and Sanitation Systems
4. Environmental protection	Nature preservation; Soil and groundwater protection; Climate protection; Sewerage	Parks and green areas; Waste management; Street cleaning	Parks and green areas; Waste management; Street cleaning
5. Housing and community amenities	Construction and renovation; Management		Construction and renovation; Distribution of drinking water; Public lighting; Urban and land use planning; Urbanism
6. Health	Hospitals	Primary healthcare (referrals)	Primary healthcare (medical centres); Preventive healthcare
7. Recreation, culture & religion	Regional and local museums; Cultural heritage; Sports Libraries		
8. Education	Secondary and higher education	Pre-primary education	Pre-primary education
9. Social protection	Social care for children and youth; Support services for families	Social Payments	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: provinces and Communes. Data of Districts are consolidated to provinces.	SNA 1993 and Subnational Administration Budget	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Low
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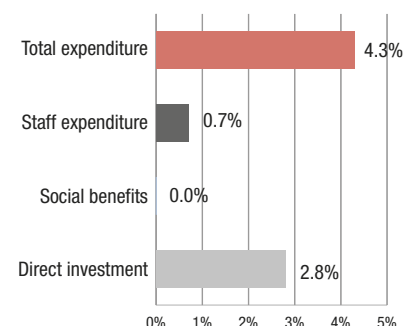
GENERAL INTRODUCTION. The finance system in Cambodia is highly centralised with respect to public expenditure and revenue. Although the SNAs have legitimacy to plan and budget capital investments and collect local tax, such activity is limited as the means of implementation remains at the central government level. In 2011, the Law on Financial Regime and Property Management of Subnational Administrations was approved in order to regulate the financial and property management of the capital city, provincial, municipal, district and *khan* councils. The Law establishes that councils will formulate, approve and implement their budgets following financial accounting standards. It is also established that councils in charge of the management of property and that there will be both internal and external audits on the council's budget and finance. Councils are also required to produce both a 5-year development plan and 3-year rolling investment program which define the councils' visions for territorial development. Provinces are the highest administrative units and have budgetary control over the Districts, Municipalities, *Khans* (DMK) and Communes/*Sangkats* (CS).

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	37	1.0%	100%	
Incl. current expenditure	29	0.8%	77.2%	
Staff expenditure	2	0.1%	5.3%	
Intermediate consumption	3	0.1%	7.2%	
Social expenditure	2	0.1%	5.2%	
Subsidies and current transfers				
Financial charges				
Others	22	0.6%	59.5%	
Incl. capital expenditure	8	0.2%	22.8%	
Capital transfers				
Direct investment (or GFCF)	8	0.2%	22.8%	

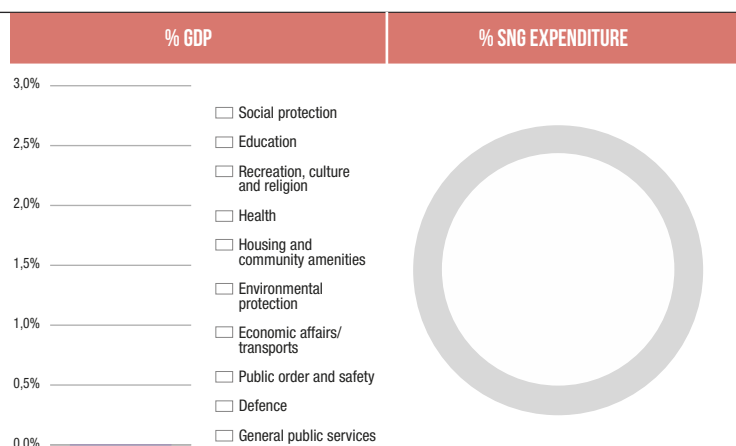


EXPENDITURE. The share of sub-national expenditure has increased over the reform period in alignment with national policy, but the annual budget for sub-national governments remains very low. In FY 2016 the total on-budget SNG expenditure corresponded to approximately 1% of GDP. Subnational governments' current expenditure represented 77% of the total expenditure incurred at the subnational level, of which 63% corresponds to provinces, 18% to districts and 19% to communes.

DIRECT INVESTMENT. In FY 2016, subnational investment expenditure represented 22.8% of expenditures incurred, with 70% of all investments being allocated to the provincial level and 30% being spent at the commune level. Very limited capital expenditure was incurred at district level. Collaboration between the communes has been exercised through the joint application for funding for capital projects. Such collaboration is agreed and overseen by the provincial level of government

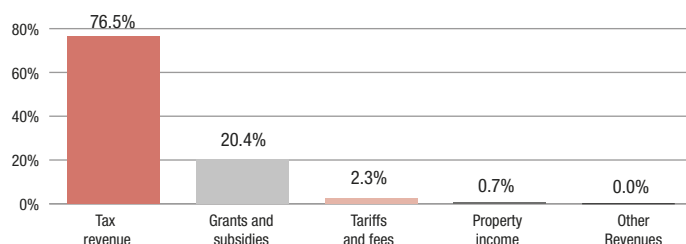
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Formally, local civic participation is encouraged through a broad-based planning forum at all stages of local planning and budgeting, and open access of the population to local council meetings. The main lines of expenditure at the commune level include infrastructure development (rural roads and drainage systems) and maintenance, social benefits and personnel expenses, although there is no information available at a disaggregate level regarding such capital investments.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	45	1.2%	7.9%	
Tax revenue	34	0.9%		76.5%
Grants and subsidies	9	0.3%		20.4%
Tariffs and fees	1	0.0%		2.3%
Property income	0.3	0.0%		0.7%
Other revenues				0.0%



OVERALL DESCRIPTION. Although current reforms have devolved more resources to subnational levels, subnational governments in Cambodia continue to perceive minor revenues, amounting to 1.2% of the GDP and 8% of the total public revenue. The 2011 Law on Financial Regime and Property Management of Subnational Administrations establishes that the revenues of provinces, districts, municipalities and *khans* may come from three sources of revenue (article 24): Local Sources; National Sources and Other sources on the basis of an agreement or contract signed with the line ministries. First, Local sources include tax and non-tax revenue,

such as administrations' property rentals or service fees. Second, national sources include transfers of funds and service fees from functions carried out by the councils on behalf of government institutions. Third, when acting as agent on behalf of another tier of government, local government are authorized to collect revenue from this activity, on the basis of a specific contract or agreement.

In FY 2016, subnational revenues corresponded to 1.2% of GDP, to which tax revenue was the greatest contributor (76.5%). Taxes collected at the subnational level include property tax, land tax, vehicle taxes, GST, and commercial tax, and are all collated at the provincial level by the Department of Taxation. While the 2001 Law on Commune/Sangkat Administration establishes that communes and sangkats have the right to directly collect tax revenue, there is no record of tax collected at both districts and communes/sangkat levels.

Districts and Communes/sangkat only gain revenues from grants and subsidies (20.4%), followed by tariffs and fees for services delivery (at 2.3% of subnational public revenue) and rent (at 0.7%).

TAX REVENUE. Overall, tax revenue is the main source of income for subnational governments (at 76.5% of SNG revenue). The law provides for subnational taxes; it sets out that taxes need be further regulated with additional legislation. Taxes collected at the subnational level include property tax, land tax, vehicle taxes, GST, and commercial tax, are generally collected at the provincial level. In FY 2016, property taxes (collected at the provincial level following the 2011 Law), constituted the largest source of tax revenue, accounting for approximately 46.6% of tax revenue and 35.7% of subnational revenue. Property taxes were followed by taxes on commercial activity (VAT and excise taxes) as the most important sources of tax revenue at the subnational level, respectively representing 30% and 19% of subnational revenues. These taxes are then returned to central government for inclusion into the budget. Although the legislative base does not prohibit local taxation there is an anomaly within the tax code that specifies all taxes belong to the central government.

The government has been prioritizing the improvement of tax collection across all tax codes but with a special emphasis on GST and corporation tax. Additionally, as more people enter into the formal economy income, tax revenues are also increasing. This is highlighted as the successful increase of tax revenues as a % of GDP from 9.6% (2009) to 15.3% (2016).

GRANTS AND SUBSIDIES. In FY 2016, grants and subsidies correspond to 20.4% of subnational government revenues.

Subnational governments receive unconditional grants to cover administrative costs, functions of the subnational government and capital development. The District Municipality Khan (DMK) Fund and the Communes Sangkat (CS) Fund are established by the National Government with support from development partners through a pooled arrangement, to allocate this funding. These are distributed through a criteria-based formula. Both funds are managed by the Ministry of Interior under the responsibility of the NCDD. In the period of 2002-2018, 2%-2.8% of national current revenues have been allocated to communes and sangkats via the CS Fund.

In addition, subnational governments are eligible to Conditional grants. These transferred from national to the different tiers of subnational government based on the function assignment from Line Ministries to SNAs. The Ministry of Environment has transferred US\$2 million to 26 municipalities to implement the function of solid waste and sewage management. However, line ministries are reluctantly to transfer functions to SNAs, as a result some functions are transferred without financial support and some are only stated in the paper but not real assignments.

The Sub-National Investment Fund (SNIF) is a financing instrument supported by the Asian Development Bank that channels additional funds to subnational governments based on their performance. It is off-budget and parallel to regular grants for subnational governments. The fund is established with the objective of promoting pilot investment projects in rural districts, including civil works in sanitation, health, infrastructure and education. The SNIF works as a facility to convert a sovereign loan to subnational grant or reimbursable grant, since subnational governments are not authorized to contract loans.

Furthermore, many transfers to the sub-national level administrations, especially for capital expenditures, are off-budget and provided through ODA grants.

OTHER REVENUES. Communes, sangkats, districts and municipalities collect non-fiscal revenues that include sales and rent of goods and services (including administrative fees and revenue from administrative permission, administrative form and other administrative management fees), revenues from service delivery (cadastre and construction fees) and from other sources, such as revenues from local citizen participation in project implementation.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
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Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. The government introduced program budgeting and gradually moved to Performance Informed Budgeting. The principles and objectives are to improve effectiveness and efficiency in budget management and to ensure the linkage of results to budgeting. The implementation of program budgeting was piloted in 12 provinces, yet issues such as challenges regarding the programs and performance indicators remain.

DEBT. Currently, no subnational governments is allowed to undertake any form of debt financing for development i.e. capital projects. As mentioned above, SNIF is a facility that converts a sovereign loan to subnational grant or reimbursable grant.



Lead responsible: UNCDF
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Socio-economic indicators: World Bank // UNDP // UN Desa // ILO // Uzbekistan National Statistical Committee.

Fiscal data: Ministry of Finance - Sub National Budget Database // Ministry of Finance. Budget in Brief 2016 // IMF (2016) Article IV Consultation. Cambodia.

Other sources of information: Cambodia Ministry of Finance presentation (2018) // Fiscal decentralisation and good governance: convergence or divergence? The experience of commune councils in Cambodia, April 2018 // NCDD (2015) The NCDD Monthly Newsletter: Vo. 1 No. 2. Phnom Penh: NCDD // NCDD (2015) NCDD Annual Work Plan and Budget of the IP3 Phase II. Phnom Penh: NCDD // World Bank (2015) Demand for Good Governance. Implementation Completion and Results Report. Washington, DC: World Bank // NCDD (2014) Information for Citizens: I4C Handbook. Phnom Penh: NCDD // World Bank (2014) The Strategic Plan for Social Accountability in Sub-National Democratic Development: A policy framework for social accountability at the local level in Cambodia. I-SAF Policy Note 1. Washington, DC: World Bank // UNCDF (2012) Final Project Evaluation: Innovation for Decentralization and Local Development. New York: UNCDF // Pak Kimchoeun (2011) Fiscal Decentralisation in Cambodia: A Review of Progress and Challenges, Working Paper Series No. 50, A CDRI Publication // Tariq H. Niazi (2011) Deconcentration and Decentralization, Reforms in Cambodia, Recommendations for an Institutional Framework, Asian Development Bank // Eng Netra. The Politics of Decentralization in Cambodia: The District Level.