




PETS – The Cambodia Case

PETS for Impact Seminar

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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

Rationale for a 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.

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

PETS design and implementation

- ✦ Consultations and scope of study (problem definition)
- ✦ Rapid data assessment (e.g., record availability)
- ✦ Questionnaire design (e.g., facility characteristics, financing, accountability mechanisms)
- ✦ Field testing and implementation
- ✦ Data entry and verification
- ✦ Analysis, report, and dissemination

Cambodia PETS: Origins

- ✦ The PETS followed from the recommendations of the IFAPER, which analyzed the overall expenditure framework in Cambodia and focused in-depth on four sectors, including education
- ✦ Frustration with poor performance of regular system (back-loading of disbursements) led to development of Priority Action Program (PAP)
- ✦ PAP intended to channel funds directly to frontline service delivery units in education

Cambodia PETS: research questions

- ✦ Extent of compliance with financial management rules and practices
- ✦ Leakage of funds
- ✦ Comparison of PAP and regular system (Ch. 11)

Cambodia PETS: findings 1a

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)

Cambodia PETS: findings 1b

- ✦ The funding gap—a compound measure of shortfalls in execution and leakage—has been modest in all years except 2001

Table 1. Average reported PAP 2.1 funding gap (%), by province

| Provinces | 2000 | 2001 | 2002 |
|-----------------|-------------|--------------|-------------|
| Bantey Meanchey | n/a | -24.4 | -2.6 |
| Kampong Cham | n/a | -23.0 | -16.3 |
| Kampong Chhnang | -2.6 | -21.9 | 0.5 |
| Kampot | -3.1 | -20.6 | -2.9 |
| Kratie | 2.4 | -19.7 | -2.0 |
| Prey Veng | -6.1 | -22.8 | -4.7 |
| Sihanoukville | n/a | -42.9 | 1.8 |
| Total | -3.1 | -23.5 | -6.3 |

Cambodia PETS: findings 1c

✦ *Explaining low leakage:*

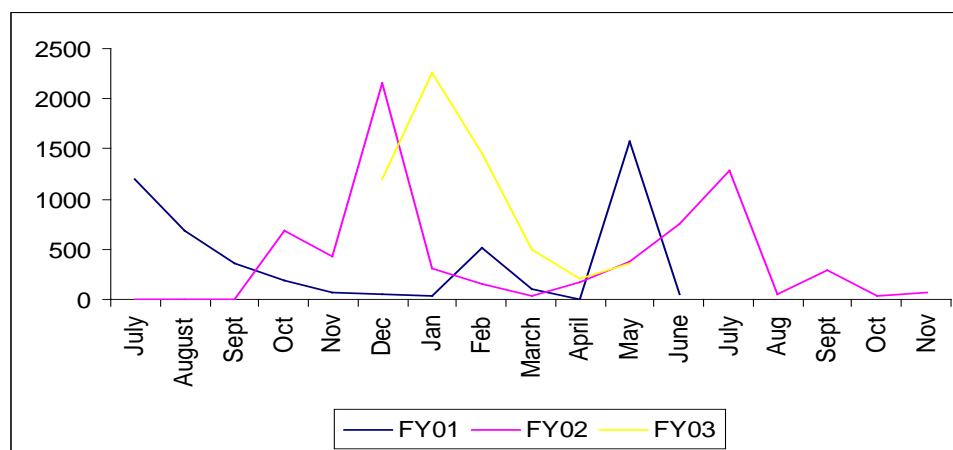
- ✦ First, the budget is determined by a simple and clearly defined allocation rule, which eliminates bureaucratic discretion and promotes transparency.
- ✦ Second, control and monitoring mechanisms exist and are implemented.
- ✦ Third, PAP procedures are simpler than those of the traditional budget system, allowing fewer opportunities for opacity and gate-keeping.
- ✦ It is important to point out, however, that in a general equilibrium sense, lower corruption in PAP might mean higher leakage in the standard system. The overall effect of introducing a better system in a weak fiduciary environment might be to shift malfeasance rather than eliminate it.

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



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

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

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 were significant improvements in the basic education sector from 2000-2005, particularly in terms of primary net enrollment rates (a 15% increase in enrollment from the pre-reform outcome), and it appears that PAP 2.1 has contributed to this
- Impact was greater in rural areas, resulting in a pro-poor bias

Cambodia PETS: findings 6a

✦ 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

Cambodia PETS: findings 6b

- ✱ No cash advances were reported to reach schools
- ✱ In terms of in-kind transfers what schools receive is limited, of low monetary value, and erratic—less than 1/3 of schools reported receiving any in-kind transfers in 2002 and 2003
- ✱ Due to delays, prices of goods procured through the regular system are higher than market prices

Cambodia PETS: findings 6c

- ✱ From the fiduciary angle, there are serious concerns about spending controls, reporting, and oversight.
- ✱ Inventory, including asset, registration in some PEOs and DEOs is very poor.
- ✱ The picture of Chapter 11 that emerges from the surveys is thus of a system that on all counts—timing and predictability of resources, results-oriented focus, and fiduciary risk—performs less well than PAP.

Cambodia: issues and recommendations

Key Issues

PAP 2.1 funds do tend to reach schools, mainly due to the program budget structure and the formula-based allocation method, subject to data caveats.

Control and monitoring mechanisms for PAP 2.1 need to be improved if leakage is to be prevented and implementation is to be improved.

Weak control and monitoring systems, and in particular the failure of the accountability relationship between school management and parents, can potentially lead to serious fund misuse.

Recommendations

- Further develop the program budget model especially as regards the deconcentration of authority to line ministries by piloting the new arrangements in selected line ministries in 2006.
- Improve budget reporting by instituting a quarterly in-year expenditure reporting system for priority ministries for PAP transfers and ensure that these are included in the accounts compiled by the National Treasury and regular fiscal reports.
- Strengthen financial reporting requirements, including the incentives for compliance, by improving internal audit capacity and utilization of information technology by developing an integrated financial management system (IFMIS) and developing and enforcing sanctions for malfeasance.
- Use the PETS results to develop a “power of information” strategy for engaging with parents, through SSCs and otherwise, on a pilot basis for selected schools.

Cambodia: issues and recommendations

Delayed and unpredictable disbursements appear to have a highly deleterious impact on schools' operational efficiency.

PAP and Chapter 11 are equally subject to the budget execution problems caused by difficulties with cash management.

The education PETS study has proven to be a useful instrument for assessing the strengths and weaknesses of Cambodia's dual budget system from the point of view of the facility level.

- Formalize the arrangement that PAP resources from PEOs should be disbursed on a priority basis to programs where timing of purchases is critical.
- Leave more discretion to schools for deciding how to spend PAP 2.1, once control is improved.
- Phase out the carry over provision for PAP as of end-2005 in order to allow for a new start and phase out the special PAP disbursement mechanism as of end-2006, or when there are satisfactory improvements in overall budget execution.
- Develop and implement new budget transaction processes, from release to commitment to payment, in order to streamline transactions by reducing delay and opportunities for gate-keeping
- Hold discussions on the usefulness of PETS-type studies with an aim to agreeing on a plan to incorporate aspects of the studies as an on-going tool for management.

Lessons

- ✦ Didn't focus only on leakage, so got a rich picture of what was going on at provincial, district, and local levels
- ✦ HD/PREM collaboration enabled a more comprehensive analysis combining public finance and sectoral outcome analysis
- ✦ Process and implementation issues
 - ✦ Survey implementation
 - ✦ Timing
 - ✦ Line ministry and MOF engagement