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CAMBODIA

# Public Expenditure Tracking Survey (PETS) in Primary Education

December 2005

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# **Cambodia – Public Expenditure Tracking Survey (PETS) in Primary Education**

**Prepared for the Royal Government of Cambodia by the World Bank Group**

Cambodia, Lao PDR, Malaysia and Thailand Country Management Unit  
Human Development (Education) and Poverty Reduction and Economic Management  
East Asia and Pacific Region



**December 2005**

## Currency and Exchange Rates

Currency Unit = Cambodian Riel  
Riel 4,293 = US\$ 1

### List of Abbreviations

ADB	Asian Development Bank
ADD	Accelerated District Development Program
BMC	Budget Management Center
BSEC	Budget Strategy and Enforcement Center
CCLS	Cambodia Child Labor Survey
CDRI	Cambodia Development Research Institute
COM	Council of Ministers
CR	Cambodian Riel
CSES	Cambodia Socio-Economic Survey
DBFA	Department of Budget and Financial Affairs
DC	Domestic Canvassing
DCO	Direct Contracting
DEO	District Education Office
DHS	Demographic and Health Survey
DP	Direct Purchase
DPP	Department of Public Procurement
EFA	Education For All
EMIS	Education Management Information System
ESP	Education Strategic Plan
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
MEF	Ministry of Economy and Finance
MOEYS	Ministry of Education, Youth and Sport
MOH	Ministry of Health
MRD	Ministry of Rural Development
NA	National Assembly
NAA	National Audit Authority
NBC	National Bank of Cambodia
NT	National Treasury
O&M	Operation and Maintenance
OPM	Office of Prime Minister
PAP	Priority Action Program
PEAC	Pre-qualification, Evaluation and Award Committee
PEFM	Public Expenditure and Financial Management
PEO	Provincial Education Office
PETS	Public Expenditure Tracking Survey
PNBC	Provincial Branch of the National Bank of Cambodia
POEF	Provincial Office of Economy and Finance
PT	Provincial Treasury
PU	Procurement Unit
RGC	Royal Government of Cambodia
SNEC	Supreme National Economic Council
SSC	School Support Committee
WB	The World Bank

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The PETS, originating in the 2003 IFAPER dialogue, was envisioned from the beginning as the product of a joint Government-donor effort to ensure acceptance of the results, as well as technology and capacity transfer, so that the government could eventually assume full responsibility for conducting future studies. The PETS in education and health are jointly conducted with the RGC and co-financed by the WB, ADB, and WHO. Other donors, including the IMF and JICA also provided guidance. The health PETS, currently underway, has incorporated important lessons from the design and implementation of the education PETS. A Steering Committee was set up to discuss contents and coverage of the education PETS. In addition, a workshop on the design and implementation of PETS, as well as lessons from around the world, was held in the summer of 2004.

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## EXECUTIVE SUMMARY

Weaknesses in Cambodia's public expenditure management system—including the difficulty in channeling funds down to service providers—have resulted in costly inefficiencies in the effectiveness of expenditures in improving social welfare outcomes (World Bank, 1999 PER and 2003 IFAPER). In response to these problems, the Royal Government of Cambodia (RGC) initiated implementation in 2000 of the Priority Action Program (PAP), which was intended to deliver resources to front line service delivery units in the priority sectors in a timely manner.

The introduction of PAP in education also represented a major change in terms of resource allocation and education sector strategy. PAP education was launched in 10 provinces in 2000 and expanded to cover all provinces in 2001. PAP shifted the focus of education policy toward basic education, in general, and demand-side constraints in particular. The assessment of the primary education Priority Action Program (PAP 2.1), which provides for schools' operational budgets and accounts for over one quarter of the entire PAP budget in education is the subject of this report, which is based on a survey of two hundred schools in seven provinces carried out in 2004.

### DO RESOURCES REACH SCHOOLS? LEAKAGE AND FACILITATION FEES

The survey found that reported leakage in PAP 2.1 is low, but also found that the PAP system is characterized by low quality record keeping, thereby limiting the robustness of the empirical findings on leakage. In terms of total PAP, there is no reported leakage of funds between Provincial Treasuries (PTs) and Provincial Offices of Education (PEOs). There is also evidence of low leakage of PAP 2.1 funds in terms of what District Offices of Education (DEOs) receive from PEOs and what schools receive, over the 2000-2002 period, but this finding is not very robust since the survey found that the quality of official, required PAP records is low, especially at the school and district levels. The poor quality of record keeping, including low reliability of receipting records and spending books, and weak monitoring and inspection of PAP implementation, must be taken into account when interpreting all the reported results.

The data show that the funding gap—a compound measure of overall shortfalls in budget execution as well as leakage in comparison to school entitlements—has been modest in all years except in 2001, indicating that resources are reported to be reaching schools, which was a major objective of the PAP reform. The funding gap is important, given that Cambodia is constrained by budget execution problems. The gap increased from 3.1% in 2000 to 23.5% in 2001, and then fell to 6.3% in 2002, though there was significant variation across as well as within provinces (Table 1).

**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
<b>Total</b>	<b>-3.1</b>	<b>-23.5</b>	<b>-6.3</b>

The ratio of reported PAP 2.1 disbursements to DEOs to PAP 2.1 budget allocations has been high except in 2001, reaching almost full disbursement to DEOs in 2003. This ratio captures budget execution shortfalls as well as potential leakage between PTs and PEOs and between PEOs and DEOs. This ratio fell from over 91% in 2000 to 70.5% in 2001, and then increased to 96.1 and 99.5% in 2002 and 2003, respectively.

The survey also collected data on “facilitation fees”—informal cash payments to secure funds release—which were found to be widespread but relatively small. About 64% of school directs report having paid a facilitation fees to DEO officials in return for the disbursement of PAP 2.1 funds, but the reported “fees” are relatively modest (Table 2). Facilitation fees paid by DEOs to PEOs and by PEOs to PTs are also very common, though with significant geographical variations. The fee amount varies depending on the relationship between the payers and the payees and other contextual circumstances. Payment is expected to smooth future transactions. It is noteworthy that the findings on leakage and facilitation fees are consistent.

**Table 2. Facilitation fees paid by schools to DEOs, Riel**

Percentage of schools paying facilitation fees	64%
Facilitation fees per disbursement	
Minimum	R1,000
Maximum	R40,000
Average (standard deviation)	R7,500 (R8,600)
Total facilitation fees as average % of total disbursement (standard deviation)	1.2% (2.0%)

To the extent that the finding of low relative leakage in PAP 2.1 is valid given record quality limitations, there may be a number of substantive reasons that explain the result. The design and operational features of PAP 2.1 likely have a major impact. First, the budget is determined by a simple and clearly defined allocation rule, which eliminates bureaucratic discretion and promotes transparency: school officials know exactly what they are due. 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 (i.e., Chapter 11). The overall effect of introducing a better system in a weak fiduciary environment might be to shift malfeasance rather than eliminate it. In fact, one provincial official reported paying PAP-related facilitation fees from Chapter 11 petty cash advances, presumably due to lower perceived risks.

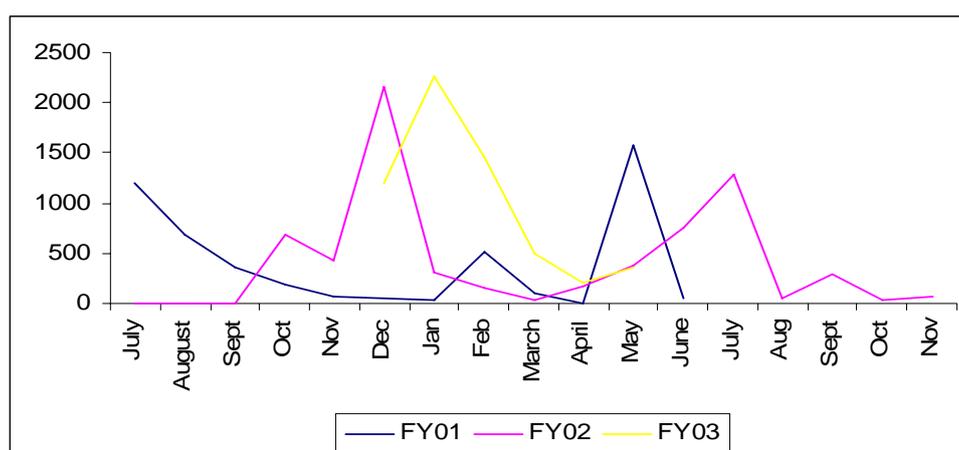
#### **WHEN DO RESOURCES REACH SCHOOLS? DELAYS AND OPERATIONAL EFFICIENCY**

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, which has negative implications on operational efficiency. The problems of erratic disbursement and back-loading of commitment and release to the end of the FY are well known (IFAPER, 2003). This study confirms those earlier findings for PAP 2.1 (Table 3). Moreover, there are significant variations across provinces. Thus, one of the key goals of PAP—to insulate the education sector from the vagaries of unreliable budget execution—has not been accomplished.

**Table 3. Timing and distribution of PAP 2.1 disbursements to schools**

Year	Cumulative percentage of funds received by schools								
	Current year by quarter (%)				Following year by quarter (%)				
	1	2	3	4	1	2	3	4	
2000	-	-	-	24.9	38.8	99.5	100.0		
2001	-	-	43.6	49.2	63.0	100.0			
2002	-	-	0.1	47.6	53.2	73.8	98.7	100.0	
2003	-	-	-	21.4	89.4	100.0			

The mismatch between school needs and the timing, size, and predictability of disbursements has a deleterious impact on schools' operational efficiency. PAP 2.1 is intended to cover basic primary school operating expenses for teaching material, sports, and school improvements. The data indicate that quite often the first PAP 2.1 disbursement reached schools in the second half of October or November, after the school year had already started, and at levels well below what schools needed. PAP 2.1 also failed to provide a smooth flow of cash after the start of the school year, and has proved to be unpredictable from one year to the next (Figure 1).

**Figure 1. Flow of PAP 2.1 per pupil disbursements for the average school**

Note: For a given fiscal year, the figure only shows disbursements from the month the previous PAP 2.1 finished disbursing.

Consequently, schools either resort to credit purchases, which increase costs, or postpone spending. Schools usually arrange credit purchases with suppliers of teaching material, among others, at a higher cost, when funds are lacking. The survey estimated the cost of credit at about 5%.

Despite PAP regulations that require schools to prepare spending reports and maintain adequate supporting records, the survey found that this documentation is practically non-existent, which prevents rigorous quantitative analysis of school spending. At best, some schools could produce receipts accounting for only a small percentage of PAP 2.1 spending. There is some anecdotal evidence that PAP 2.1 funds are sometimes spent in ways that differ from the PAP guidelines, however.

## ARE OFFICIALS ACCOUNTABLE? CIVIC ENGAGEMENT AT THE SCHOOL LEVEL

The survey found that the social accountability mechanisms established at schools to monitor PAP spending are not very effective, particularly in small schools. While it was generally believed that School Support Committees (SSCs) provided significant civil society oversight of school management and spending, the survey results indicate otherwise. Moreover, the knowledge of teachers, SSC members, and parents about PAP is limited: although 97% of teachers and 83% of SSC members know what PAP is, many fewer know about the PAP entitlement for the school and spending guidelines, and only 9% of parents know about PAP (Table 4). The survey also found that though SSCs are supposed to represent the community, effective parental representation seems limited.

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

<b>Respondents</b>	<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

Given weaknesses in formal accountability mechanisms for public expenditure management in Cambodia, strengthening the accountability of school management is a top priority. The effectiveness of expenditure policy and management in delivering services efficiently will depend in part on the strength of accountability mechanism. Measures to empower parents by providing them with the necessary information to monitor school performance and participate in the management of schools would reduce the opportunities for fund misuse and would likely improve service delivery.

## TRUST IN THE SYSTEM? FIDUCIARY RISK IN THE PRIORITY ACTION PROGRAM

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. DEOs and schools are required to record cash receipt transactions in their budget tracking books and keep supporting receipts. In practice, however, some DEOs, and a greater number of schools, fail to comply with this requirement. The lack of supporting documentation limits the ability to monitor fund flows with any confidence. Problems with poor record keeping are compounded by poor archiving at the DEO and school levels.

School compliance with PAP spending reporting has been improving; however, there is still uncertainty about reporting regulations. Schools are required to prepare PAP spending reports, which must be approved by DEOs and forwarded to PEOs. However, the number of reports sent to the DEO varies, and different school directors understand their spending reporting obligation differently. For all schools that claimed to have sent spending reports to DEO, only small numbers sent monthly reports.

**Table 5. PAP spending reports from schools by school years**

	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>
Percentage of schools sent PAP spending reports to DEO in <i>Out of those who did sent the reports,</i>	74	97	100
Percentage of schools that sent PAP reports to DEO on monthly basis	12	16	33

Spending reports thus do not serve any useful monitoring purpose, and are not reflected in MEF fiscal reports. In practice, field observations suggest production of false receipts and other documents. A close look at reported PAP 2.1 spending revealed clear inconsistencies. Over 80 percent of school directors and DEOs interviewed acknowledged that they sometimes prepared and approved incorrect and incomplete spending reports, due in part to rigidities in spending guidelines. There was also noted, in practice, a lack of separation between those who make the spending decisions and those who make the payments. Even when they are two different two officials, the separation of responsibilities is often not clear.

Field inspections and follow-up activities to monitor PAP implementation are of limited reliability. Though inspections are numerous, most school inspection do not follow standard procedures and, more importantly, do not result in any official report being issued. The fact that inspection reports are not issued raises questions about how exactly PAP is monitored by MEF. Moreover, inspections are carried out by MOEYS officials, which means that external oversight is not a regular feature of the system. The apparent lack of incentive to conduct quality inspection combined with poor record-keeping suggests monitoring activities of limited quality.

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. With no apparent penalties for non-compliance, and no reports of disciplinary sanctions applied, with no external oversight, and with extremely low wages and weak meritocratic promotion practices, civil servants do not have strong incentives to comply with the system.

#### **HAS PAP MATTERED? EQUITY AND THE IMPACT ON SCHOOL ENROLLMENT**

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. The combination of a funding formula that benefits small schools disproportionately and the greater relative poverty of small schools results in a pro-poor distribution of per pupil PAP 2.1 funding. However, the evidence does not support the claim that PEOs prioritize cash disbursements to the neediest schools.

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 important outcome. Preliminary results show that from 2000-01 to 2001-02 PAP 2 increased grade 1 enrollment by 25 students, on average, per school. This represents a 15 percent increase in enrollment from the pre-reform enrollment outcome.

The impact PAP 2 on grade 1 enrollment was greater in rural areas. Between 2000-01 and 2001-02, grade 1 enrollment increased on average by 25 more students as a result of PAP 2, while there was no significant effect found in urban schools. To the extent that households residing in rural areas are poorer, the results suggest that the PAP has important distributional effects.

The increase in school enrollment was not accompanied by a proportional increase in the number of teachers, however, which may have affected education quality negatively. The model was re-estimated using the student-teacher ratio as the outcome variable. Between 2000-01 and 2001-02, pilot schools experienced, on average, an increase of 18 students per teacher, or a 20 percent increase in the student-teacher ratio, which raises questions about the quality implication of PAP in this regard.

### **DOES PAP OUTPERFORM THE REGULAR SYSTEM? CHAPTER 11 IN COMPARISON**

Chapter 11, which covers operations and maintenance, is part of the standard budget system in terms of both preparation and execution. Based largely on the old French model, it is highly centralized, uses an economic classification structure, relies strongly on ex ante spending control, and uses direct payment by National Treasury for expenditure operations (though up to 30 percent can be spent through the advance system). Prior to PAP, Chapter 11 was the only source of funding for school operating expenditures. Chapter 11 spending is high, accounting for almost 30% of non-salary recurrent expenditures in sample provinces in 2003.

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. No cash advances were reported to reach DEOs or schools. In terms of in-kind transfers, what DEOs receive from PEOs (viz., some stationary and gasoline) is limited, of low monetary value, and erratic in delivery. Similarly, in-kind transfers of Chapter 11 resources to schools are meager in quantity and value. Not more than 25% of the schools in 2002 and 2003 reported receiving any teaching materials. About only 30% and 15% of schools in 2002 and 2003, respectively, received sports materials and other materials, such as journals and administrative books. As record keeping on in-kind transfers at DEOs and schools is poor, these data must be interpreted with caution.

Survey data also show that Chapter 11 was subject to a budget execution gap of 17.5% and 12% in 2002 and 2003, respectively (Table 6). The Chapter 11 budget execution rate is calculated as disbursements divided by budget allocations to PEOs. Allowing carryovers (of funds from one year to the next) for PAP but not for Chapter 11 is likely to explain most of the relatively better performance of PAP in this regard. Chapter 11 is also subject to pronounced back-loading, as most spending occurs in the last quarter of the fiscal year, resulting in severe consequences for operational efficiency.

**Table 6. Chapter 11 budget execution rate (%), by province**

<b>Provinces</b>	<b>2002</b>	<b>2003</b>
Bantey Meanchey	93.5	97.5
Kampong Cham	65.2	78.1
Kampong Chhnang	73.5	90.5
Kampot	82.1	91.7
Kratie	85.1	82.0
Prey Veng	97.0	87.0
Sihanoukville	82.0	91.0
<b>Total</b>	<b>82.5</b>	<b>88.0</b>

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. “Examination fees,” which are paid to teachers to administer national exams, are by far the largest spending category of Chapter 11 (11.01.14) at the provincial level, representing approximately one-third of the total in 2002-2003 (over 95% of Chapter 11.01.14 in 2002 and 2003 is accounted for by examination fees, which do not include other basic materials needed for examinations, such as exam writing papers, which are transferred in-kind directly from MOEYS). Moreover, there is a common pattern across provinces in that petty cash is mainly used for “mission expenses” for domestic travel. Mission fees represented 13.4% and 12.5%, respectively, in 2002 and 2003 of total provincial Chapter 11 spending. Thus, together Chapters 11.01.14 and 11.02 accounted for 45.6% and 53.1%, respectively, in 2002 and 2003 of the total. The regular system (as well as PAP) thus abounds with untransparent remuneration practices.

The multiplicity of bureaucratic requirements creates long delays in the budget execution process. The survey indicates that approval of spending commitment requires more than seven signatures if the payment is processed through only the Provincial Office of Economy and Finance (POEF) and the Governor’s Office (GO), and more than ten if approval from the central MEF is needed. The time involved in this process varies, ranging from a few days to more than 15 weeks. The approval of payment mandates might take more than ten signatures to go through the POEF, the GO, and the PT, taking about the same time as the approval of commitments.

As a result, prices of goods purchased through the procurement system are often much higher than market prices. The survey found that the price per ream of A4 paper (a common, standard purchase) is, on average 30% higher than the retail market price. According to PEAC/PU officials, the contract price is higher than the market price because the purchases are made on credit, and payment takes a very long time. In addition, according to PEO officials, suppliers have to pay facilitation fees to various officials, mainly at the procurement and payment stages.

From the fiduciary angle, there are serious concerns about spending controls, reporting, and oversight. A central concern is low financial management capacity at the provincial level. PEO accountants interviewed demonstrated little knowledge of relevant regulations. There are no accounting records maintained by PEOs and the quality of record-keeping varies significantly across PEOs, which opens the door for fund misuse at the PEO level. Some PEOs prepare very readable and detailed spending and cash reports, while others’ reports are difficult to understand or practically non-existent in some cases. The problem of poor accounting and record keeping is compounded by poor archival systems at PEOs, making audits and inspections difficult and of questionable quality.

Inventory, including asset, registration in some PEOs and DEOs is very poor. In some sample provinces, although an inventory book is kept by PEO, it is often not well kept or updated. For example, some inventory books were kept only up to 2002. At the DEO level, the inventory registry is even poorer, with some DEOs keeping virtually no inventory records, and some others only recording fixed assets, without indicating when and from where they were received.

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. This finding will have major implications on the reform program in terms of the mainstreaming of a reengineered PAP approach. Compared to Chapter 11, it is clear that the RGC has made some progress, though in some areas only marginally, in improving PFM by introducing PAP.

## CONCLUSION

The introduction of the Priority Action Program represented a major change in terms of sector strategy, budget formulation, and resource flow. As such, a comprehensive assessment was needed to analyze the impact in terms of providing resources to schools in a timely and predictable manner, making sure those resources are used as intended, and improving education outcomes.

With the launch of the RGC's Public Financial Management Reform Program (PFMRP) in December 2004, the challenge of making the budget credible has taken on a new momentum.<sup>1</sup> According to the PFMRP, delivering reliable and predictable budget resources to budget managers can only happen if the ability of budget managers to spend in line with the budget is streamlined. The challenge for MEF is to mainstream PAP, building on the lessons learned thus far, into the cornerstone of a medium term financial deconcentration program. However, at the same time, MEF recognizes and this report shows that improvements in the design of PAP are necessary before it is mainstreamed. The report concludes with a summary of the key issues and recommended actions.

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<sup>1</sup> See "Public Financial Management Reform Program: Strengthening Governance through Enhanced Public Financial Management," Ministry of Economy and Finance, 2004.

**Table 7. Summary of Key Issues and Recommended Actions**

<b>Key Issues</b>	<b>Recommendations</b>
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.	--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.
Control and monitoring mechanisms for PAP 2.1 need to be improved if leakage is to be prevented and implementation is to be improved.	--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.
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.	--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.
Delayed and unpredictable disbursements appear to have a highly deleterious impact on schools’ operational efficiency.	--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.
PAP and Chapter 11 are equally subject to the budget execution problems caused by difficulties with cash management.	--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.
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.	--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.

# 1. INTRODUCTION

## THE MOTIVATION AND CONCEPTUAL FRAMEWORK

1.1 **The diversification and deepening of Cambodia’s low human resource base is central to the Royal Government of Cambodia (RGC) strategy to promote new and sustainable sources of economic growth and improve living standards.** The commitment of the RGC to human development is reflected in the Socio-Economic Development Plan for 2001-2005 (SEDP II), the National Poverty Reduction Strategy (NPRS), and the Cambodia Millennium Development Goals (MDGs). The forthcoming National Strategic Development Plan (NSDP) will integrate the existing agenda and build on it going forward.

1.2 **Led by the Ministry of Education, Youth and Sports (MOEYS), the government’s education sector program aligns closely with the national development agenda.** The government recognizes that any effort to improve the education base of the country must start by providing quality basic education for all. This emphasis has been articulated in MOEYS’ Education Strategic Plan (ESP), the Education Sector Support Program (ESSP), and the Education for All (EFA) Action Plan. Since the late 1990s, public resources devoted to education have increased significantly, particularly recurrent expenditures (wages, operations and maintenance) in basic primary education. The introduction of the Priority Action Program (PAP) in the education sector in 2000 resulted in a major shift in strategy – focusing policy on demand-side constraints, in particular, the reduction of the cost burden on the poorest families, thereby increasing school enrollment.

1.3 **To reach the Cambodia Millennium Development Goals, the RGC recognizes the need to improve the effectiveness of public spending.** Weak public expenditure management has resulted in significant sectoral differences and inefficiencies in the delivery of services to improve social welfare. To address this problem, the World Bank, in consultation with the RGC and other development partners, is developing a programmatic approach to analyze public resource use and management issues. The program focuses on two central themes: (a) improving the quality and quantity of service delivery through a pro-poor expenditure policy and better management – to include human resource management, and (b) reducing the fiduciary risk to public funds by safeguarding them for their intended use.

1.4 **The 2004 World Development Report (World Bank, 2004) identified four possible “breaks in the chain” from budget allocation to desired service delivery: (a) spending on the wrong goods or people; (b) funds not reaching front line service providers; (c) weak incentives for service providers; and (d) demand-side failures that prevent households from taking advantage of service provision.** The analytical program will attempt to address over time each of the possible failures in the system. In 2003, the *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER) looked at four priority sectors – health, education, agriculture, and transport – and analyzed (a) whether spending was generating the “right” goods for the “right” people; (b) the extent to which the poor benefit from budgeted expenditure; and (c) the incentives for service providers and effective management of human resources in the civil service. Demand-side constraints in education have been analyzed in a recent study on Quality Basic Education for All. Teacher quality and incentives are the subjects of a forthcoming study.

1.5 **The Public Expenditure Tracking Survey (PETS) in Primary Education analyzes the remaining two possible “breaks in the chain” of service delivery – the flow of funds to front line service providers, and demand-side failures, particularly those related to information access.** The PETS is the first comprehensive and statistically significant review of the RGC’s Priority Action Program (PAP), which the government intended to be a partial solution to the problems of rigidities, delays, and uncertainties created by the over-centralized regular budget system (known as Chapter 11 for operations and expenditures). PAP, originally intended as a pilot program, is thought to have forced some changes in spending priorities, as well as created new concerns, particularly regarding the adequacy of controls.

1.6 **In 2000, PAP sought to improve health and education sector outcomes by channeling funds directly to high priority activities** by: (a) reducing line item detail in the budget for PAP allocations, thereby giving greater responsibility for the allocation of operating costs to spending agencies; (b) introducing budget management centers (BMCs) in spending agencies to manage their own budgets in accordance with pre-approved plans; and (c) replacing pre-audits of spending by post-audits.

## MOTIVATION QUESTIONS

1.7 **At the minimum, an education funding mechanism needs to be judged by its ability to guarantee the appropriate use and smooth flow of resources to schools.** Schools need money, resources, and effective teaching to operate. However, other things being equal, more budgetary resources for schools do not necessarily translate into better education outcomes. First, budgetary resources may not reach the schools. Second, even when they do, resources may not arrive in a timely and predictable manner. Third, even when resources flow smoothly down to schools, resources may be diverted to uses that lie outside the school system.

1.8 **With the launch of the RGC’s Public Financial Management Reform Program (PFMRP) in December 2004, the challenge of making the budget credible has taken on a new momentum.**<sup>2</sup> According to the PFMRP strategy, delivering reliable and predictable budget resources to budget managers can only be done if procedures are streamlined. Among other things, this would entail streamlining core budget transaction processes and progressively deconcentrating expenditure commitment, procurement, and payment authority to line ministries, while strengthening control.

1.9 **With PAP under review in the context of the PFMRP, the challenge for the Ministry of Economy and Finance (MEF) is to mainstream PAP as the cornerstone of a medium-term financial deconcentration program** (see PFMRP Consolidated Action Plan Activity 6.11). However, the other challenge for the MEF is to improve the fundamental design of PAP before mainstreaming it. The proposition of this study is that the PAP experience has provided important lessons for the ongoing PFMRP.

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<sup>2</sup> See “Public Financial Management Reform Program: Strengthening Governance through Enhanced Public Financial Management,” Ministry of Economy and Finance, 2004.

**1.10 Does PAP work, as compared both to objective international standards and Cambodia’s regular budget system? This question is broken down into four constituent parts:**

1. Do PAP funds reach schools? If so, do PAP funds reach schools in a timely and predictable manner? To the extent that PAP does not reach the front lines, is leakage the problem?
2. What is the level of operational efficiency of PAP fund usage by schools? Is the diversion of funds to uses outside the school system a problem?
3. What is the impact of PAP funds on student outcomes? Moreover, what is the equity distribution of PAP funds?
4. Is PAP characterized by low, medium, or high levels of fiduciary risk? Is there adequate compliance with financial controls?

**1.11 Do provincial and district BMCs and provincial ministry departments transfer sufficient funds down to the school level in a timely and predictable manner?**

This question, like the others, is a relative one: Does PAP work as compared to the regular budget system (Chapter 11)? Do PAP funds reach the facility level more quickly and regularly than Chapter 11 funds? To the extent that funds do not reach the front lines, is leakage to blame? Anecdotal reports indicate that officials must make several layers of “pay offs” or “facilitation fees” to receive their appropriated funds. The PETS will probe the validity of these kinds of claims, as well as explore the causes in the event that they are substantiated.

**1.12 What is the level of operational efficiency of PAP fund usage by schools?** The question is looks at whether PAP funds are used effectively for the provision of education services or diverted to non-intended uses, particularly those that lie outside the school system.

**1.13 Do poorer schools benefit disproportionately from PAP 2.1 funds in terms of receiving higher per-pupil amounts, getting them earlier and when most needed?**

School participation, school progress and student learning are the outcomes the PAP system is ultimately designed to improve and, therefore, the outcomes it should ultimately be held accountable for.

**1.14 Is compliance with financial management practices and rules strong, adequate, or weak?** There has been a great deal of largely anecdotal speculation about the supposed lack of fiduciary safeguards around PAP. In fact, this view has led some to call for the immediate reunification of PAP with the regular system. This issue is problematic for PAP, as it was not known whether financial management and procurement practices were even widely understood and disseminated. The PETS attempts to document whether compliance is weak because rules are unknown, unwritten, or known but not applied.

**1.15 As agreed in the IFAPER, the RGC and the World Bank, with the support of other donors, conducted the first PETS in education, focusing on both PAP and Chapter 11 expenditure.**<sup>3</sup> The PAP was launched by MOEYS on a pilot basis in 10 provinces in 2000 with the goal of reducing the cost burden on the poorest families, and thereby increasing participation of their children in grades 1-9 (MOEYS 2001). These measures, in the primary education sector only, included the removal of registration and

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<sup>3</sup> The most important PAP ministries in terms of the volume of spending and the comprehensiveness of the program are MOEYS and MOH. The health PETS is underway with results expected in early 2006.

other school fees, grants to schools for pre-determined operational expenditures to replace school charges previously imposed on households, and remedial classes. The scheme was expanded to cover the whole country in 2001, and further developed to cover other parts of the education system. There are currently 12 PAPs currently in operation.

**Table 1.1: Detailed breakdowns of the twelve PAP activities<sup>4</sup>**

<b>PAP</b>	<b>Description</b>
1	Education teaching services efficiency
2	Primary education quality and efficiency
3	Secondary education quality and efficiency
4	Technical and vocational education and training quality and efficiency
5	Higher education quality and efficiency
6	Continuous teacher development
7	Instructional materials and textbook development
8	Expansion of non-formal education
9	AIDS awareness in schools
10	AIDS awareness out of schools
11	Supplies, capacity strengthening and provincial monitoring
12	Equitable enrolment and scholarship reception

1.16 **The focus of the PETS is on primary education, and in particular, schools' operational budgets.** The Primary Education PAP (PAP 2) is the longest running and the single most important PAP, accounting for about 26% of the PAP budget in 2004. It is also associated with the primary education sector, which has experienced fast growth over the past few years, representing 80% of the total student body in public education in 2003-04, according to EMIS. PAP 2.1 accounts for most of PAP 2 (about 80 percent) and the represents by far the largest source of public funding of primary schools. These school operational budgets were designed to compensate schools for the removal of start-of-the-year fees. In addition, primary schools also receive funds for summer remedial classes (PAP 2.2). However, these funds are mainly directed at teachers in the form of overtime payments. Teachers are also the main recipients of PAP 1 (Education Service Efficiency and Performance) in the form of targeted financial incentives, which they get in addition to basic salary and allowances (Chapter 10 in the regular budget system). Primary schools are direct recipients of textbooks (PAP 7.1).<sup>5</sup>

1.17 **The PETS is a diagnostic tool used to study the flow of public funds from the center to service providers.** It has successfully been applied in Uganda, Peru, Zambia, Papua New Guinea, and other countries where public accounting systems function poorly or provide unreliable information (Reinikka and Smith, 2004). The PETS has proven to be a useful tool to identify and quantify the leakage of funds. The PETS has also served as an analytical tool for understanding the causes underlying problems, so that informed policies can be developed. Finally, PETS results have successfully been used to improve transparency and accountability by supporting "power of information" campaigns.<sup>6</sup>

<sup>4</sup> Source of data in all tables is the 2004 PETS survey, unless otherwise noted.

<sup>5</sup> However, as it is noted later, although schools are supposed to keep records on PAP 2.1, PAP 1 and PAP 7.1, in practice these are almost non-existent, which limits the ability to conduct a quantitative analysis of how these resources flow down to schools and are eventually used.

<sup>6</sup> See for example Reinikka and Svensson (2004).

1.18 **The Cambodia PETS in Primary Education goes beyond the issues of efficiency (resource flow and use) and examines, in the case of PAP, equity in the allocation of resources and the impact on student outcomes.** The PAP 2.1 (primary school operations budgets) is presented in the ESP and ESSP documents as a poverty-indexed program, which would imply that those resources were disproportionately allocated to poorer schools. An efficient and equitable disbursement and use of resources is not sufficient to have an impact on student outcomes. School participation, school progress, and student learning are the outcomes the system is ultimately designed to improve and, therefore, for which it should ultimately be held accountable. While there have been significant improvements in the basic education sector over the past five years, particularly in terms of primary net enrollment rates, the question is whether and how much PAP has contributed to this improvement.

1.19 **This study also analyzes the flow and use of Chapter 11 funds in the regular budget system, and compares them with PAP 2.1 funds.** Chapter 11 funds are intended for general operational and maintenance expenditure. Chapter 11 is planned and executed as part of the regular budget system, which is based on the old French model and is therefore highly centralized. Before school operation grants were introduced in 2000 (PAP 2.1), Chapter 11 was the only source of funding for school operational expenditures. However, Chapter 11 and PAP 2.1 resources are not mutually exclusive. Chapter 11 accounted in 2003 for almost 30% of non-salary recurrent expenditure in the provinces covered by the survey, and yet there have been few analytical forays into the way Chapter 11 works in practice as opposed to in theory.

1.20 **The analysis and comparison of processes and outcomes associated with PAP 2.1 and Chapter 11 provides important policy lessons about the most efficient and equitable way of channeling education resources.** PAP 2.1 and Chapter 11 differ fundamentally in terms of budget processes, including the degree of discretion over the budgeting and allocation of resources, the degree of centralization of the budget system, the degree of bureaucracy, and the strength of the control and monitoring mechanisms overseeing the flow and use of resources. Differences in processes may lead in turn to differences in outcomes. Thus, the analysis and comparison of processes and outcomes associated with PAP 2.1 and Chapter 11 yield important policy lessons on ways to improve the design and implementation of these two budget lines and, more importantly, the most efficient and equitable way of channeling education resources.

1.21 **The Cambodia PETS in Primary Education is a complex survey involving the Provincial Treasuries (PT), Provincial Education Offices (PEOs), District Education Offices (DEOs), and schools.** The survey covered a random sample of 200 primary schools in 21 districts and 7 provinces.<sup>7</sup> At the school level, questionnaires were designed for each school director, a random sample of teachers from each school (one teacher per grade), a random sample of 3 School Support Committee (SSC) members from each school, and a random sample of 6 parents per school. The core of the questionnaires for the PT, PEOs, DEOs and school directors focused on resource flows (i.e., resources received from an upper tier of government and resources transferred to a lower tier of government), which allowed for some triangulation or cross checking of the data. In addition, the questionnaires for the school directors also contained a variety of information on schools, teachers and students. The teacher, SSC and parental questionnaires were primarily designed to collect information on the degree of knowledge of and involvement in school

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<sup>7</sup> See Annex 2 for details on the sampling.

matters (particularly PAP flows and use), on the part of teachers and communities.<sup>8</sup> In addition to these questionnaires, a random sample of 20 grade four students and 20 grade six students were tested in numeracy and literacy, and background socio-economic information was collected from them.

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<sup>8</sup> In addition, the teacher instrument also contains extensive information on teachers. These data are being analyzed for the purpose of a complementary piece of sector work looking at teacher training and incentives in relation to teaching quality, teacher supply and student outcomes.

## 2. EDUCATION FINANCE

### A PROFILE OF THE BASIC EDUCATION SECTOR AND EDUCATION FINANCE

2.1 **Primary net enrollment rates have increased significantly in recent times, but coverage is still far from universal.**<sup>9</sup> Table 2.1 shows that whether one uses school census data from the Education Management Information System (EMIS), or household survey data, primary net enrollment rates have increased significantly. However, net enrollment rates are significantly and systematically lower in household surveys than in the EMIS. In particular, enrollment in primary school is close to universal according to the EMIS, but still far from it according to data from three household surveys. All sources of data show a sharp decline in net enrollment rates after primary education, and here also household survey figures are significantly lower than EMIS figures.<sup>10</sup>

**Table 2.1. Net enrollment rates**

Source	Measured As of	Academic Year	Net enrollment rates		
			Primary	L.Sec.	U.Sec.
EMIS	Oct 98	98/99	78.3	14.2	6.4
	Oct 99	99/00	85.5	14.4	9.3
	Oct 00	00/01	83.8	16.6	7.7
	Oct 01	01/02	87.0	18.9	7.4
	Oct 02	02/03	88.9	19.1	6.7
	Oct 03	03/04	90.1	21.3	8.1
CSES	Jan-Aug 99	98/99	57.4	8.9	5.4
DHS	Feb-June 00	99/00	65.0	7.1	6.7
CCLS	April 01	00/01	69.5	8.6	5.3

*Source:* EMIS 1998-2004, Cambodia Socio-Economic Survey (CSES) 1999, Demographic and Health Survey (DHS) 2000 and Cambodia Child Labor Survey (CCLS) 2001.

2.2 **Overage enrollment is pervasive in basic primary education and is mostly due to late school entry.** The EMIS data show significant overage intake and enrollment that increases with the grade level. According to the Cambodia Child Labor Survey (CCLS) data, both late school entry and over-aged enrollment are more accentuated – about 72% of children who enter school for the first time are older than 6 and most children in secondary school are actually over-aged.<sup>11</sup> Late school entry is not a temporary phenomenon, but strongly related to structural factors. About 75% of the accumulated delay of children attending primary school is explained by late school entry.

2.3 **Despite the significant gains in primary enrollment rates, school progress in basic education has changed very little.** Most of the recent gain in primary net enrollment is due to a net gain in the proportion of (mostly over-aged) children that enter school, rather than children staying longer in school.

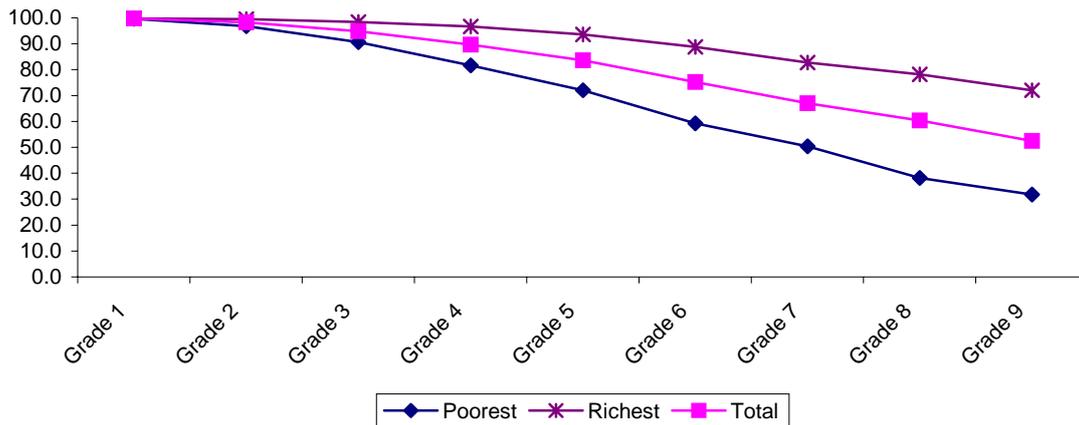
<sup>9</sup> Net enrollment rates measure the percentage of children who are expected to be in a certain school level by their age and are effectively enrolled in that school level.

<sup>10</sup> The report also suggests why age reporting in household surveys is more precise than in EMIS.

<sup>11</sup> The recent World Bank report on Basic Quality Education for All (World Bank, 2004), from which this section draws, shows that these differences are due to the fact that students attending each school level are reported to be significantly older in household surveys than in the EMIS. Indeed, the average age of primary, lower secondary, and upper secondary students is 10.8, 15.8 and 18.1, respectively. Thus, in secondary school the average age of school goes is actually out of the target age group.

**2.4 The constraints that prevent progression through the school system start in upper primary education, particularly among the poor.** Even though most children spend some time in primary school, significant numbers drop out before completing the primary school cycle. Figure 2.1 shows that about 75% of children who start school graduate from primary school (6 years), and only 52% complete basic education (9 years). This decline in participation through the years of basic education is particularly severe among children from households in the poorest two wealth quintiles. In particular, while almost all children in the richest quintile complete primary school (89%), only 59% of the children in the poorest quintile do.

**Figure 2.1. Completion rates from grade 1 by wealth (CCLS)**



**2.5 Thus, the attainment of Universal Basic Education requires addressing the constraints starting in upper primary school, and focusing on interventions that promote equitable access and participation.** Despite the remarkable improvement in primary enrollment rates, Cambodia still has some way to go before achieving universal basic education. The large number of drop outs in the basic education system does not start in lower secondary school but rather in upper primary education, particularly among the poor. The results show that efforts to increase access, retention, and completion of primary and lower secondary education need to be particularly targeted to children in the poorest two quintiles.

**2.6 During the 1990s, the proportion of the government budget allocated to education was very low by international standards.** For example, during the period 1994-97, education was budgeted to receive between 8.4% and 9.6% of total government spending, and in real terms funding for education from government sources fell between 1995 and 1997 (Pheng et al., 2001). In most countries of the region, education was allocated well over 10%, and in a few countries the figure exceeded 20% (Bray, 2004). Furthermore, in Cambodia the actual expenditures on social services were often lower than the budgeted amounts. By contrast, defense and security received 204% of their budgeted allocation in 1994, and 106% in 1997 (Pheng et al., 2001).

**2.7 This pattern was radically altered at the end of the 1990s and, particularly, since 2000, with a significant increase in public resources devoted to education, particularly recurrent expenditures in the basic education sector.** As a share of GDP, government spending on education more than doubled from 0.9% to 2% between 1997 and 2002, while its share of total government expenditures increased from 7% to 12% (World Bank and ADB, 2003). This greater public commitment to education has resulted in an increase in the government's share of total educational expenditures (from 21% in 1997 to

50% in 2002). The parental share is still high, but has decreased slightly from 37% to 34%, while the share from external funding has fallen from 41% to 16%. Furthermore, there has been a shift from capital expenditures in favor of recurrent spending from 58% to 84% between 1997 and 2002. During this period, basic education received between 80% and 84% of RGC's recurrent expenditure in education.

**2.8 This increase in spending is a result of a major shift in the education sector strategy through the introduction of PAP.** During the early and middle 1990s, the country and its major donors invested millions of dollars into supply-side interventions only to see participation and flow rates at the primary level continue to stagnate throughout that period. The PAP shifted the focus of education policy toward demand-side factors. In particular, a specific purpose of this pilot was “to reduce the cost burden on the poorest families to increase participation of their children in grades 1-9” (MOEYS 2001).

## **EXPENDITURE MANAGEMENT AND PUBLIC EDUCATION FINANCE**

**2.9 Cambodia's regular budget system continues to follow a traditional approach, based on the old French model.** In this system the approved budget presents a detailed breakdown of inputs by “chapter,” distinguishing allocations for salaries and allowances (Chapter 10), operating costs (Chapter 11), economic and social interventions (Chapters 30 and 31), and capital (Chapters 50 and 51). Allocations are further broken down into “sub-chapters,” which are used for the purposes of budgetary control, and then broken down further into a total of forty-three line items detailed in agency budgets for operating costs. Agencies have limited authority to alter the composition of inputs during execution. The standard budget execution system has been effective as a control mechanism – thereby contributing to the fiscal and macro-economic stability in recent years – but it has failed as a system of delivering resources to spending agencies, due to a lack of transparency and a high level of risk (fiduciary risk is addressed in the following sections).

**2.10 While the current Cambodian budget system has the merit of facilitating control of agency spending, it has hindered allocative and operational efficiency.** Since the institution, rather than the function, is the object of expenditure, the needs of the institution—administrative overheads—have the first call on limited resources, rather than service delivery, and little attention is given to managing outputs. Since the institution is a single entity for budget purposes, it is often difficult to target resources to specific functions or departments, and line managers may not even know how much money they have been allocated, let alone track the allocation of resources during execution or link resource allocations to the performance of various functions or departments.

**2.11 In addition to far-reaching expenditure management changes with the introduction of PAP in 2000, the education sector also benefited from a major shift in expenditure policy starting in the late 1990s.** Improvements in the alignment of resources with development objectives led to increased allocations for priority sectors, notably education and health.

**Table 2.2. Education Spending in Cambodia, 1996-2005 (millions)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005B
CR	81,266	84,444	99,927	152,263	163,067	221,039	289,669	289,946	313,523	353,135
US\$	31	29	27	40	42	57	74	73	78	88
Total RGC Budget										
CR	897,088	932,054	1,059,568	1,329,956	1,528,700	1,707,168	1,923,568	1,903,638	2,171,240	2,418,600
US\$	342	316	283	349	397	438	489	478	539	601
Share to Total Budget	9.1%	9.1%	9.4%	11.4%	10.7%	12.9%	15.1%	15.2%	14.4%	14.6%
Share to GDP	0.9%	0.9%	0.9%	1.2%	1.2%	1.6%	2.0%	1.9%	1.9%	1.8%
Memo Items:										
Exchange Rate	2,624	2,946	3,744	3,813	3,854	3,900	3,935	3,980	4,031	4,026
GDP (CR, billions)	8,601	9,509	11,134	12,417	13,135	13,796	14,734	15,531	16,171	19,608

Note: TOFE, LDB, and Fund staff estimates. All data are actual Treasury-executed spending except 2005. Excludes spending for youth and sport.

2.12 **The administrative composition of recurrent Treasury-executed spending in MOEYS in 2005 is heavily oriented toward provincial administration, which consumes 63 percent of the total recurrent budget and 57 percent of the total wage budget.** Higher education and youth and sport together account for only about 8 percent of the budget, while education (primary and secondary) consumes 30 percent of the total – and primary and secondary PAP alone accounts for 25 percent of the total budget. Salaries and allowances amount to only 59 percent of total budgeted expenditure, and operating costs and PAP absorb 12 and 27 percent, respectively. The wage share of total recurrent spending has consistently fallen in MOEYS. Wage increases have not kept pace with increases in the total budget, which has resulted in higher growth in operating expenditure. The wage share to total recurrent spending has declined steadily from 78 percent in 1997 to 59 percent in 2005, which is well below the developing country norm of 70-80 percent.

**Table 2.3. MOEYS Budget Composition (Recurrent), 2005**

<u>Administrative Composition</u>	<u>CR, millions</u>	<u>%</u>
<u>1. Education</u>	108,380	30%
Ch. 10: Salaries	2,760	1%
Ch. 11: Operating Costs	13,065	4%
Ch. 13: PAP	92,000	25%
Other	555	0%
<u>2. Higher Education</u>	15,070	4%
Ch. 10: Salaries	3,275	1%
Ch. 11: Operating Costs	6,035	2%
Ch. 13: PAP	5,170	1%
Other	590	0%
<u>3. Youth and Sport</u>	13,620	4%
Ch. 10: Salaries	900	0%
Ch. 11: Operating Costs	10,055	3%
Ch. 13: PAP	1,300	0%
Other	1,365	0%
<u>4. Provinces</u>	229,685	63%
Ch. 10: Salaries	210,605	57%
Ch. 11: Operating Costs	13,520	4%
Ch. 13: PAP	n/a	n/a
Other	5,560	2%
<b>Total</b>	<b>366,755</b>	<b>100%</b>

Note: 2005 Budget Law. Other includes social interventions and contributions to international organizations.

## SOURCES OF EDUCATION FINANCING

**2.13 PAP represents the largest non-wage budget line both at national and provincial level.** For the education sector, nationally, PAP accounted for 26.5% of the recurrent budget in the 2003 budget year, rising from 26.2% in 2002 and 12.7% in 2001. As of June 2004, 76.98 billion riel (about USD 19.25 million) had been allocated to the 12 PAP activities corresponding to fiscal year 2003, of which 26.0 billion, or 34% of the total, had been allocated to PAP 2 (MOEYS, 2004). For the seven sample provinces, Table 2.3 shows that for budget year 2003 PAP represents on average 17.6% of the total budget received by Provincial Education Offices (PEOs). The Chapter 10 of the budget (Salary and Allowances) accounted for over 70 percent, Chapter 11 (Operations and Maintenance) about 8 percent and Chapter 31 (Economic Interventions) around 1 percent. PAP has increasing trends since its introduction until 2002. For the sample provinces, the total amount of PAP received by PEOs has been increasing over time until 2003, which experienced a slight drop from 2002.

**Table 2.4: Different budget lines received by PEOs for 2003 budget year**

	Ch10 (%)	Ch11 (%)	PAP (%)	Ch31 (%)	Total (Riel billion)
Bantey Meanchey	70.9	7.8	19.9	1.4	11.76
Kampong Cham	78.4	4.4	16.6	0.6	27.52
Kampong Chhnang	69.6	7.0	22.0	1.4	8.22
Kampot	73.0	8.5	18.0	0.5	11.98
Kratie	73.9	9.2	15.7	1.2	5.74
Prey Veng	77.4	6.8	14.6	1.2	20.80
Sihanoukville	71.0	11.5	16.3	1.2	3.29
<b>Average</b>	<b>73.5</b>	<b>7.9</b>	<b>17.6</b>	<b>1.1</b>	<b>12.8</b>

**Table 2.5: Total PAP received by PEO in billion riel**

Province/Year	2000	2001	2002	2003
Bantey Meanchey	N/a	0.89	2.54	2,34
Kampong Cham	N/a	2.17	4.31	4.58
Kampong Chhnang	0.82	0.58	1.64	1,81
Kampot	1.15	0.81	2.21	2,16
Kratie	0.50	0.38	1.51	0.90
Prey Veng	1.91	1.57	3.10	3,03
Sihanoukville	N/a	0.18	1.19	0.54
<b>Total</b>	<b>4.39</b>	<b>6.58</b>	<b>16.50</b>	<b>15.36</b>

**2.14 PAP 2.1 is the largest PAP program.** Nationally, PAP 2.1 accounted for about 26% of the total PAP budget in 2004. Table 2.7 indicates that in 2000 PAP 2.1 represented more than 80% of the total PAP received by PEOs. In subsequent years up to 2002, its share of total PAP declined. In 2001 the amount of PAP 2.1 received by pilot provinces declined relative to 2000 reflecting the change in the formula, which introduced a per-school component but reduced the per-pupil component (Table 2.7). In 2002, the amount increased significantly due to the increase in the per-pupil amount and the increase in enrollment. In 2003, there was no change in the formula but PAP 2.1 increased slightly in

absolute terms. However, it increased significantly relative to other PAP programs because all PAP budget lines were decreased, except PAP 2.1.

**Table 2.6: PAP 2.1 in billion riel (B.R) and share in total PAP**

Province	2000		2001		2002		2003	
	B.R	%	B.R	%	B.R	%	B.R	%
Bantey Meanchey	n/a	n/a	0.67	75.2	1.08	42.4	1.09	46.9
Kampong Cham	n/a	n/a	1.56	71.9	2.11	49.0	2.55	55.6
Kampong Chhnang	0.67	82.0	0.45	76.8	0.67	41.0	0.72	40.1
Kampot	1.15	86.5	0.81	80.1	1.02	41.4	1.07	43.0
Kratie	0.42	83.0	0.29	76.1	0.42	27.8	0.44	48.3
Prey Veng	0.57	82.1	1.03	65.4	1.60	51.6	1.59	52.4
Sihanoukville	n/a	n/a	0.11	62.2	0.23	19.7	0.23	42.7
<b>Total</b>	<b>0.7</b>	<b>83.4</b>	<b>0.7</b>	<b>72.5</b>	<b>1.0</b>	<b>39.0</b>	<b>1.1</b>	<b>47.0</b>

**Table 2.7: PAP 2.1 per-year capitation grant**

Budget Year	School Year	Per-Pupil Grant	Per-School Grant
2000	2000/01	R8,514	None
2001	2001/02	R5,305	R500,000
2002	2002/03	R6,000	R500,000
2003	2003/04	R6,000	R500,000

**2.15 Besides PAP 2.1, primary schools also receive financial assistance from other sources, but these are difficult to quantify because of poor school records.** Table 2.8 provides information on many sources of financial support received by sample schools from PAP 2.1, PAP 2.2 (Remedial teaching), parents/community, NGOs and donors, and other sources of assistance. The latter includes public funding for capital improvements, Chapter 11, as well as resources from individual donors, which in practice are very difficult to separate out due to poor school records. In fact, except for PAP 2.1, a large proportion of schools that report receiving financial assistance from a certain source do not know the value of that assistance. The lack of school records is particularly troublesome in the case of PAP 2.2, as schools are required to keep records on these funds. The quantification of transfers is made even more complicated by the fact that most contributions or donations are made in-kind, especially those from NGOs, donors and the government. Thus, the values shown must be interpreted with caution. In addition to various types of assistance shown in Table 2.9, primary schools also received textbooks (PAP 7.1), but due to lack of school records, textbooks are not included in this analysis.

**2.16 PAP 2.1 is the main source of public funding for operational expenditures and the most widespread and predictable source of funding.** All primary schools receive PAP 2.1 funds, while many schools do not receive funds from other sources. Although on a per-pupil basis, all other source contributions combined are larger than PAP 2.1, the fact that a smaller number of schools receive them makes them less relevant overall than PAP 2.1. Likewise, in contrast with PAP 2.1, other sources of funding such as community contributions and donations from NGOs and other donors are very erratic. Except for PAP 2.1 and PAP 2.2, most of the other types of assistance are in kind.

**2.17 Funds for remedial classes (PAP 2.2) are a small share of PAP 2.1.** The number of schools receiving PAP 2.2 funds for teachers conducting remedial teaching during summer vacation increased significantly from 2002. Among schools receiving these funds, PAP 2.2 only represents about 22% of PAP 2.1 in the 2003 budget year.

**2.18 Primary schools still depend on contributions from parents and community.** One of the benefits of PAP is the abolition of school fees, and virtually all parents interviewed during the survey confirm such a claim. However, this does not mean schools are not allowed to ask for contributions from parents and the community to cover expenses not covered by PAP 2.1, such as expensive maintenance and rehabilitation. Around half of the schools interviewed collected contributions from parents and the community. The average value of the contribution was about R5 million, with a large variation across schools. Among schools receiving contributions, the average contribution is larger than PAP 2.1 funds, although when taking into account schools not receiving these contributions, the overall contribution is actually smaller. Single contributions with values over R100 million usually come in the form of school constructions. These big contributions are usually the result of joint support from people in the community and people who used to be part of the community and now live outside (including overseas). Contribution from the community in the form of labor is also common. However, labor contribution is not included in the calculations.

**2.19 NGOs and organizational donors are other important sources of financial support.** Almost half of the schools reported to have received something from NGOs or donors. The number of schools receiving this type of assistance increased in 2002. The value of these donations is very large, averaging about 30 million riel, but there is great variation across schools.

**2.20 Financial assistance for primary schools from other sources, including the government, is small.** This category includes public transfers from the PEOs, DEOs, or the MOEYS for capital improvement and school operation (Chapter 11). The quality of the data is very limited to the point that, for years except 2003, about three-quarters of schools reporting this type of assistance did not know its value. While the average value of these transfers is very large, there is a lot of variation, with almost 50 percent of the donations between R10, 000 and R5 million. Large public donations, one of which amounted to 720 million riel (about USD180, 000) are usually for school construction. The difference in the value of contributions across schools is huge.

**Table 2.8: Sources and composition of school resources**

<b>Financial assistance</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>
<b>PAP2.1 (School Operating Budget)</b>				
% of schools having received the transfers	<b>49.0</b>	<b>98.5</b>	<b>100.0</b>	<b>100.0</b>
<i>Of these</i> , % of those who do not know the value of the donation	0.0	0.0	0.0	0.0
Average amount in million riel	3.6 (2.4)	2.6 (1.6)	3.9 (2.3)	3.6 (2.4)
Average per-pupil amount	8.3 (1.3)	4.8 (1.1)	6.7 (1.2)	6.3 (1.4)
<b>PAP2.2 (Remedial Teaching)</b>				
% of schools having received donations	<b>17.5</b>	<b>24.0</b>	<b>76.5</b>	<b>78.0</b>
<i>Of these</i> , % of those who do not know the value of the donation	2.0	10.0	41.5	38.0
Average amount in million riel	0.8 (0.4)	0.7 (0.5)	0.7 (0.5)	0.8 (0.5)
Amount relative to PAP 2.1, average %	20 (10)	30 (15)	19 (10)	22 (10)
Average per-pupil amount	1.6 (0.8)	1.4 (0.7)	1.3 (0.7)	1.3 (0.6)
<b>Parents/community</b>				
% of schools having received donations	<b>57.0</b>	<b>43.0</b>	<b>52.0</b>	<b>48.0</b>
<i>Of these</i> , % of those who do not know the value of the donation	27.2	36.0	30.8	22.9
Average amount in million riel	5.4 (20.1)	5.4 (13.7)	5.8 (18.5)	5.0 (18.2)
Amount relative to PAP 2.1, average %	215 (912)	203 (474)	171 (497)	144 (566)
Average per-pupil amount	14.6 (52.1)	9.3 (22.1)	11.4 (32.9)	10.1 (42.1)
<b>NGO and organizational donors</b>				
% of schools having received donations	<b>36.5</b>	<b>31.5</b>	<b>46.5</b>	<b>44.5</b>
<i>Of these</i> , % of those who do not know the value of the donation	42.5	46.0	43.0	43.8
Average amount in million riel	36.9 (75.2)	34.4 (69.1)	33.7 (56.8)	28.2 (44.1)
Amount relative to PAP 2.1, average %	1,454 (2004)	1,377 (2,999)	1,197 (2,067)	1,019 (1,796)
Average per-pupil amount	71.1 (134.4)	72.7 (173.6)	85.1 (152.1)	64.4 (116.6)
<b>Other sources of assistance</b>				
% of schools having received donations	<b>78.5</b>	<b>75.0</b>	<b>78.5</b>	<b>75.0</b>
<i>Of these</i> , % of those who do not know the value of the donation	73.2	70.7	65.0	27.3
Average amount in million riel	3.8 (15.4)	3.7 (13.0)	12.7 (31.7)	12.8 (71.8)
Amount relative to PAP 2.1, average %	124 (461)	90 (315)	437 (1,190)	358 (2,194)
Average per-pupil amount	7.3 (29.0)	4.9 (15.5)	27.6 (76.9)	23.0 (141.2)

*Note:* Figures in brackets are standard deviations. Average values and standard deviations are only computed among schools that report having a known value for each particular source of funding.

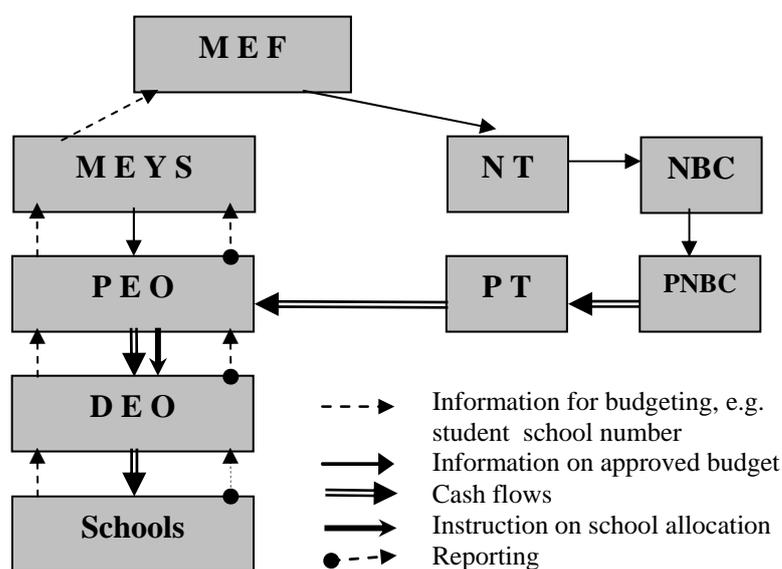
### 3. EFFICIENCY OF PUBLIC EDUCATION FUNDING: PAP

3.1 This section describes processes and outcomes of PAP 2.1 in order to identify areas of strength and weakness, particularly in relation to the alternative regular budget system. First, it describes the rule defining how much money each school is supposed to receive, how the money is supposed to flow down to schools and be used by schools, as well as the control mechanisms that are supposed to be in place. Second, we examine how much money schools are actually receiving relative to what they are entitled to receive, the timing and size of disbursements relative to the needs of the schools during the school year, and the use of funds at the school level.

#### PAP 2.1 – GUIDELINES

3.2 The implementation of the PAP, including PAP 2.1, is decentralized. Figure 3.1 provides a simplified diagram of the structure of resource flows. This structure was in place before the introduction of PAP. However, the implementation of the PAP budget, including PAP 2.1, is relatively more decentralized and deconcentrated, compared to the regular budget execution system. This is because the MEF delegates most of the functions to the MOEYS and its provincial and district offices. To undertake these additional tasks the capacity of the PEOs and DEOs has been upgraded with training and supporting equipment.

Figure 3.1: Simplified implementing process of PAP



3.3 The only additional management structure created for the purpose of the PAP implementation is the Budget Management Center (BMC). The BMC manages the PAP budget. Established in 2000, with its own allocated operational budget, the BMC is to prepare the PAP proposal, ensure the flows of PAP from the central to provincial, district and school levels, and manage records for the purpose of post audits. BMCs are part of the existing finance and accounting sections of PEOs and DEOs.

3.4 **PAP 2.1 funding to schools is formula-based.** Each school is entitled to a budget for pre-determined operational expenditures. This includes a fixed grant plus a per-pupil allowance. Thus, smaller schools get a larger budget on a per-pupil basis than larger schools because of the fixed grant component. Except for the pilot year, the capitation grant has had both components, with small variations in those over time (Table 3.1).

**Table 3.1: PAP 2.1 per-year capitation grant**

<b>Budget Year</b>	<b>School Year</b>	<b>Per-Pupil Grant</b>	<b>Per-School Grant</b>
2000	2000/01	R8,514	None
2001	2001/02	R5,305	R500,000
2002	2002/03	R6,000	R500,000
2003	2003/04	R6,000	R500,000

3.5 **The budgeting of PAP 2.1 is “bottom up.”** The PAP 2.1 budget is proposed based on the number of students and schools. The Department of Primary Education at the MOEYS prepares the national budget for primary education based on student numbers and other information sent from the PEOs. Since budget proposals have to be made before the start of the school year, schools often use the current enrollment figure as a predictor of next year’s student body. The MOEYS then incorporates the budget proposals from the various departments – primary and secondary education, and vocational training – and comes up with a total education sector budget proposal that is forwarded to the MEF for approval. The final budget proposal indicates the total budget amount as well as its breakdown by provinces and PAP programs. Once approved, the MOEYS informs the provinces how much they are entitled to in the upcoming year for the different PAP activities.

3.6 **The approved PAP budget is disbursed through the Treasury.** The MEF informs the National Treasury (NT) about the allocated PAP budget, which then informs the various Provincial Treasuries (PTs). The PTs record the amount in the PEOs accounts at the PT. During implementation, in principle, the annual PAP budget is to be disbursed in two phases. In each phase, the amount of the disbursement depends on cash availability. When cash is available, the NT, which has an account at the National Bank of Cambodia (NBC), orders the transfer of cash from the NBC to its provincial branches (PNBCs). Once the funds are available at the PNBC, the PT is informed, picks up the cash, and keeps it in the PEO’s account at the PT.<sup>12</sup> The PEO is then called to pick up the money from the PT.

3.7 **PAP budget allocations for a given fiscal year are expected to be fully disbursed in that fiscal year, but undisbursed allocations can be carried over to the next year.** In contrast with the other sources of education finance, PAP funds allocated to a given fiscal year that are not disbursed at the end of that year can be carried over into next year’s budget, and still be disbursed as the previous year’s PAP funds. The process continues until funds are either fully disbursed or the MEF decides to close it. It is then that the disbursement of the new year’s PAP budget starts.

<sup>12</sup> For Chapter 10 funds, PEOs pick up the money directly from NBC’s provincial branch.

3.8 **The PEO has discretion over the allocation of PAP funds received, but ultimately it needs to conform to the annual budget of MOEYS.** The PT transfers the cash for the whole PAP package to the PEO. Upon the receipt, a meeting among different specialized sections, such as primary education and the Budget Management Center (BMC)<sup>13</sup> is held to decide how to divide the cash into the different PAP programs. Each cash transfer received from the PT, however, is managed at the discretion of the PEO. Although there are no rules on this, the PEO is expected to exercise its discretion by prioritizing key PAP activities (e.g., PAP 2.1 funds to cover start-of-the-school year costs) and needy districts and schools.

3.9 **The PEO is usually responsible for allocating PAP 2.1 funds to different schools through the DEO.** The PEO sends the cash to the DEO along with instructions on how to distribute to the schools in each district. The actual allocation of PAP 2.1 is based on the current student numbers.

3.10 **Cash carriage rather than the banking system is used when transferring funds from the PEOs to schools.** The MOEYS is to provide safe boxes for the PEOs and DEOs to store the money before it gets transferred down, but other than this there are no specific regulations on transfer arrangements.

3.11 **It is expected that the timing and size of disbursements match the spending needs of schools during the school year, and that they are predictable.** Although there are no rules, the flow of PAP 2.1 funds to schools needs to attend to the typical spending pattern of schools, with a significant concentration around the start of the school year in October, and it is expected to be consistent from one year to the next so that schools can plan accordingly.

3.12 **In using PAP 2.1 funds, schools must follow pre-determined spending guidelines.** PAP 2.1 funds can only be spent on basic teaching materials, sports, small repairs and other small expenses incurred by schools following the parameters specified in Table 3.2.

**Table 3.2: PAP 2.1 spending guidelines**

<b>Spending Items</b>	<b>Allowed</b>
(i) Basic teaching materials	At least 30%
(ii) Sports, arts, crafts, agricultural activities	At most 15%
(iv) Others (transportation, reception...)	At most 7%
(ii) Small repairs, furniture, school environment upgrading	<i>Not specified</i>

*Source:* The table is extracted from (MEF-MOEYS, 2002) in the “Compilation of Documents on Public Accounts, Public Acquisition and Priority Action Program,” and only covers basic parameters.

### **Monitoring and control mechanisms**

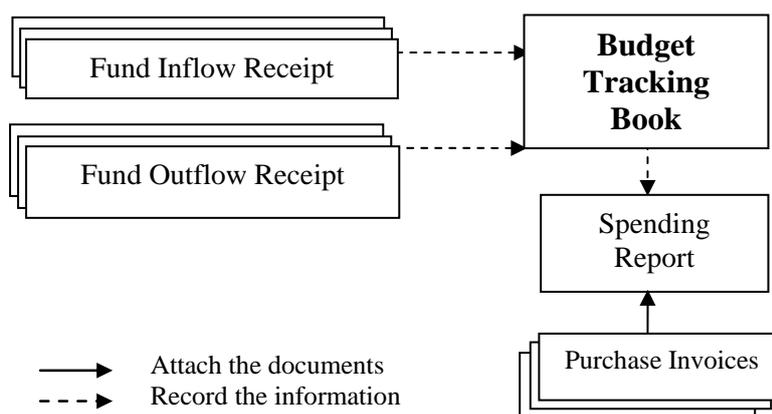
3.13 **There are only a few regulations issued so far for PAP implementation control.** A few sub-decrees, Prakas and notifications have been issued so as to facilitate the implementation of PAP. In general, these laws and regulations are not detailed, requiring the MOEYS and its various departments, including the Department of Primary Education, to develop a set of internal rules and regulations for relevant activities.

<sup>13</sup> The BMC is established at central, provincial and district levels to be in charge of PAP implementation. More details about PAP are elaborated in Chapter 4.

3.14 **Reporting is required on transfer and use of funds.** The DEO allocates funds to schools according to the PEO specifications and asks schools to sign a receipt. The DEO reports the transfer of funds to the PEO and attaches various documents, including signed payment slips. Schools, on the other hand, are obliged to prepare spending reports after spending PAP 2.1 funds. The reports are to be sent and checked by the DEO and checked again by the PEO. Finally, the reports are forwarded to the MOEYS.

3.15 **To support PAP implementation, there are various records to be prepared and kept by the BMC at provincial and district levels, as well as by schools.** These include Fund Inflows and Outflow (spending) Receipts, Budget Tracking Books, PAP Spending Reports, and Purchase Invoices. The In/Outflow Receipts are for recording all funds received and disbursed. The Budget Tracking Book records inflows and outflows, spending, and the cash balance on a monthly basis. Relevant receipts are required to be attached along with spending reports. All these documents are required to be kept by the BMC at provincial and district levels, as well as by the schools. Thus, each of these tiers of government is supposed to keep separate records.

**Figure 3.2: Simplified accounting process for PAP 2.1 transactions at each tier**



*Note:* PEOs, DEOs and schools are all required to keep these documents. For the spending report, however, it is more relevant at the school level.

3.16 **For control purposes, the above records have to be endorsed by relevant stakeholders.** As an illustration, when a PEO transfers PAP funds to a DEO,<sup>14</sup> the DEO should record the amount in its Expense Receipt Book. According to the MOEYS (2004b), the receipts need to be endorsed with signatures by the heads of the BMC of the PEO, its accounting officers and cashiers, and a representative of the DEO. The PEO then records the transactions into its Budget Tracking Book, which is to be endorsed by the head, deputy head of the BMC, and the PEO accounting officer. Eventually, the cash inflows, outflows and balance, if any, should be reconciled. On the DEO side, upon receiving the fund, they prepare their own Fund Inflow Receipts, which get endorsed by the head of the BMC, the accounting officer, and the cashier. Finally, the transaction is recorded into the Budget Tracking Book, which must be endorsed by the head and deputy head of the BMC, and the accounting officer.

3.17 **At the school level, endorsement by the School Support Committee (SSC) is needed on financial documents, especially those related to PAP transactions.** When a primary school receives PAP 2.1 or other PAP funds, such as PAP 2.2 (Remedial

<sup>14</sup> When PEOs receive funds from the PTs, it prepares a fund inflow receipt.

Teaching),<sup>15</sup> it prepares the Fund Inflow Receipt, records the transactions in its Budget Tracking Book, and prepares the fund outflow or expense receipts when the school spends the money. For these documents, a signature of a member, usually the head of the SSC is required in addition to that of the school director, school treasurer, and the recipients. For any of the expenses made, invoices signed by the buyer – the school director or any other person representing the school – and supplier, need to be produced. Finally, the school needs to prepare spending reports for the DEO attaching relevant invoices. The spending report needs to be signed by the school director, a SSC member, and the cashier.

**3.18 Beyond the endorsement role, teachers, parents and the SSC are expected to be involved in the actual PAP 2.1 spending decisions.** Although there are no rules on this, school directors are expected to hold meetings with teachers and the community, as represented by parents and the SSC, to decide how to spend PAP 2.1 funds within the guidelines specified in Table 3.2. In order to make sure that PAP funds get spent properly and transparently by school management, a school committee, called the Budget Monitoring Committee (BMC), is set up. This committee is composed of the school director, several teachers, and a representative from the SSC. The school director is required to inform and present to the BMC the amount of PAP funds received, and ask for its approval and the endorsement of PAP spending and the spending reports. Also, in order to guarantee spending transparency, the school accountant is not allowed to make purchases. Instead, a sub-committee consisting mainly of teachers is established to request needed materials and make the purchases.

**3.19 In addition to reporting, inspections are carried out to monitor the flows and use of PAP 2.1 funds.** In order to monitor the flow and use of PAP 2.1 funds, field visits are expected to be made by the higher levels to the lower levels. There are funds earmarked for follow-up activities in each of the twelve PAP activities. In addition, there is a separate program (PAP 11) for checking and follow-up activities only. Part of the BMC officers' responsibilities, whether at central, provincial or district levels, is to conduct field visits to the lower levels. PAP can be monitored not only by BMC officers, but also by officers from specialized technical sections of the Department of Primary Education of the MOEYS or the Office of Primary Education of the PEO.

### **PAP 2.1 – THE FUNDING GAP**

**3.20 The PAP 2.1 funding gap is defined as the difference between school entitlements and the amount they actually receive.** However, this gap does not necessarily represent “leakage”, because for funds to be “leaked” or “captured” they have to be officially disbursed first. Therefore, the funding gap is conceptually a compound measure of the budget execution gap and leakage. Ideally, the budget execution gap should be measured by the ratio of PAP 2.1 disbursements (i.e., PAP 2.1 executed budget) to PAP 2.1 budget allocations (i.e., entitlements). Leakage would then be defined as the proportion of officially disbursed PAP 2.1 funds that does not reach schools (i.e., the executed amount not received over the allocated amount). However, PAP funds are transferred from PTs to PEOs as a package, and not disaggregated according to PAP activities, so the first official PAP 2.1 disbursements are transfers from each PEO to all DEOs in the province. Thus, in practice, we compare only the disbursements from PEOs to DEOs to PAP 2.1 entitlements to all schools in that province. This measure captures budget execution shortfalls but it also reflects possible capture between PTs and PEOs as well as between PEOs and DEOs. In

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<sup>15</sup> In the case of PAP 7.1 (textbooks) the transfer is not in cash but in-kind. However, schools are required to keep records as well.

addition, we compare PAP 2.1 funds disbursed to DEOs to those funds reaching schools. This measure only reflects leakage.

3.21 **In measuring the funding gap for PAP 2.1, the actual per-student PAP 2.1 amount received by the school is compared with the per-student amount the school was entitled to receive** according to Table 3.1. The formula is summarized in Figure 3.3 below. The formula uses the number of students reported by schools in the planning process, which is often the enrollment figure from the last school year. In addition, given that PAP 2.1 funds can be carried forward, the formula uses the fiscal year the PAP 2.1 funds belong to, rather than the actual budget year these funds are received by schools.

**Figure 3.3: School-level formula for PAP 2.1 funding gap calculation**

$$\left[ \left( \frac{\text{Actual per pupil PAP 2.1 received from FY } t}{\text{Entitled per pupil PAP 2.1 for FY } t} \right) - 1 \right] \times 100\%$$

Where:

$$\text{Actual per pupil PAP 2.1 received from FY } t = \frac{\text{Total PAP 2.1 received from FY } t}{\text{Planned student number for FY } t}$$

$$\text{Entitled per pupil PAP 2.1 for FY } t = \text{Per pupil allowance FY } t + \frac{\text{Fixed grant per school FY } t}{\text{Planned student number FY } t}$$

3.22 The funding gap has been modest in all years except in 2001, with significant variation across provinces, as well as within provinces, in all years except 2000. The gap went from 3.1% in 2000 to 23.5% in 2001, and then down again to 6.3% in 2002 (Table 3.3). There are statistically significant differences in the funding gap across provinces in all years except 2000. (For the budget year 2003, we cannot interpret the 15.4% figure as funding gap for that year, since the 2003 budget did not close until August 2004. However, it indicates a significant delay in disbursement, with significant variation across provinces. According to a follow up survey of PEOs in all seven provinces, which was conducted later in the year, all PAP 2.1 budget allocations for 2003 had been disbursed to schools by August 2004). Most of the total funding gap – 94%, 69%, and 50% in 2000, 2001, and 2002, respectively – is explained by within-province variation.

**Table 3.3: PAP 2.1 funding gap (%)**

<b>Provinces</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003 (a)</b>
Bantey Meanchey	n/a	-24.4	-2.6	0.1
Kanpong Cham	n/a	-23.0	-16.3	-6.9
Kampong Chhnang	-2.6	-21.9	0.5	-1.3
Kampot	-3.1	-20.6	-2.9	-39.4
Kratie	2.4	-19.7	-2.0	-20.7
Prey Veng	-6.1	-22.8	-4.7	-22.4
Sihanoukville	n/a	-42.9	1.8	-16.5
<b>Total</b>	<b>-3.1</b>	<b>-23.5</b>	<b>-6.3</b>	<b>-12.8</b>

*Note:* Bantey Meanchey, Kanpong Cham and Sihanoukville were not part of the PAP pilot, so they did not receive any PAP funding for fiscal year 2000. The negative sign indicates funding shortage, whereas the positive indicates funding surplus. For budget year 2003, the funding gap is measured based on the fund disbursement as of May 2004. The 2003 PAP 2.1 budget was fully disbursed to schools by August 2004. The PAP budget for fiscal year 2004 began being disbursed in August 2004.

**3.23 The difference between PAP 2.1 disbursements to DEOs and actual budget allocation has been small except in 2001, reaching almost full disbursement to DEOs in fiscal year 2003** (Table 3.4). The PAP 2.1 entitlement is calculated using the components of the funding formula (Table 3.1) and the number of students in each province (as collected by each PEO for the purpose of planning the PAP 2.1 budget for the following year). PAP 2.1 transfers from PEOs to all DEOs under their territory is used as the numerator.<sup>16</sup> As mentioned earlier, this ratio captures budget execution shortfalls as well as potential leakage between PTs and PEOs as well as between PEOs and DEOs. This ratio went down from over 91% in 2000 to 70.5% in 2001, and then up again to 96.1 and 99.5% in 2002 and 2003, respectively. The differences across provinces are jointly significant in all years except 2003. The table also shows that as of May 2004, only 82.7% of the 2003 PAP 2.1 had been disbursed to DEOs, with significant variation across provinces.

**Table 3.4: Ratio of PAP 2.1 disbursements to DEOs to entitlements**

Province	2000	2001	2002	2003(a)	2003(b)
B. Meanchey	n/a	67.1	97.3	100.0	100.0
K Cham	n/a	77.8	83.5	86.4	99.9
K Chhnang	93.6	70.9	90.4	98.1	98.1
Kampot	87.2	77.6	98.6	51.3	100.1
Kratie	96.9	75.0	95.2	81.9	99.1
Prey Veng	87.7	71.5	100.1	75.7	99.6
Sihanoukville	n/a	53.6	102.1	82.8	99.9
<b>Total</b>	<b>91.3</b>	<b>70.5</b>	<b>96.1</b>	<b>82.7</b>	<b>99.5</b>

*Note:* 2003 (a) is calculated as of May 2004 whereas 2003(b) is as of August 2004, which is when the 2003 budget execution ended for all provinces.

**3.24 The differences across and within provinces are due to a combination of actions at the PEO and the national level.** As cash becomes available during the year, the MEF, the NT and the MOEYS decide how to distribute it to the provinces. In addition, as mentioned earlier, the PEOs decide how to allocate cash to the different PAP activities. Furthermore, PEOs have discretion over the allocation of PAP 2.1 funds to districts and schools. This may help to explain the funding gap variation within provinces. The equity of these allocation decisions will be examined in Chapter 4.

**3.25 The disbursement rate of PAP 2.1 funds to DEOs may also reflect leakage, while the measure of the ratio of funds disbursed to DEOs that do not reach schools only captures leakage; the latter, however, is based on “official” and incomplete receipt of data.** At each level, these documents record the transfer of funds to the lower level as well as the receipt of funds from the higher level. In addition, each tier is supposed to keep a copy of the outflow receipt from the upper level as well as an independent inflow receipt for the same transaction. All these various receipts allow data triangulation. These documents are “official” in the sense that they are produced for “official” control purposes rather than for the provider organization’s own record. The latter would be needed to address questions related to the flow and use of funds, but these records are simply non-existent at the DEO and school levels. Even the independent inflow receipts are rarely kept by schools and, to a lesser extent, DEOs. Thus, analysis relies in many cases on official outflow receipt data. This measure of leakage aims to identify funds captured by PEOs and DEOs. For the total of PAP, we are also able to measure leakage of funds between the PT and the PEO using receipt data.

<sup>16</sup> As with the funding gap, disbursed funds are assigned to the fiscal year they belong to rather than the year in which they are actually disbursed.

3.26 **Based only on “official” and incomplete receipt data, all PAP 2.1 funds transferred to DEOs reportedly reached schools in all sample provinces and years.** In terms of total PAP, there is no reported leakage of funds between PTs and PEOs. Likewise, there is no reported leakage of PAP 2.1 funds in terms of what DEOs receive from PEOs and what schools receive.

3.27 **In addition to the above measure of leakage, and in order to complement it, the survey collected information on “facilitation fees.”** These fees represent payments from the lower level to the upper level in exchange for each disbursement of funds. The practice of paying facilitation fees in the current financial management system is common (WB, 2004b). These payments are illegal and thus not likely to be reflected in the official receipt data. The information on facilitation fees was collected through qualitative interviews in the case of PEOs and DEOs, and direct questions on the extent and amount of these fees in the case of school directors.

3.28 **The majority of schools pay facilitation fees to the DEO for each disbursement, but these payments represent a small percentage of the total PAP funds disbursed to schools.** About 64% of school directors report having paid a facilitation fees to DEO officials in return for the disbursement of PAP 2.1 funds (Table 3.5). According to interviews with school directors, DEOs justified their request for facilitation fees by claiming that schools should help to cover some costs incurred in transferring the money from the PEO to the DEO, including transportation costs, mission, food and accommodation expenses paid by DEO officials when they go to pick up the money at the PEO. In addition, according to these same interviews, the payment is higher the larger the disbursement, but fees are not strictly a percentage of the funds disbursed. Table 3.5 also shows that for the last fiscal year (2003),<sup>17</sup> facilitation fees per disbursement ranged from R1, 000 (\$0.25) to over R40, 000 (\$10.0), with an average of R7, 500. The data also show that fees are not a strict percentage of disbursements. In particular, fees per disbursement tend to increase in increments of R1, 000 (\$0.25). The data also indicate that the most common amounts paid out are R2, 000 (\$0.5), R5, 000 (\$1.25) and R10, 000 (\$2.5). Despite such variation, there appears to be a minimum fee payment around R1, 000 (\$0.25). Among schools that report having paid facilitation fees, the average percentage of fees paid relative to total PAP 2.1 disbursements is 1.2 percent, with a standard deviation of 2.0.

**Table 3.5: Facilitation fees paid by schools to the DEO**

% of schools paying facilitation fees	64%
Facilitation fees per disbursement	
Minimum	R1,000
Maximum	R40,000
Average (standard deviation)	R7,500(R8,600)
Total facilitation fees as average % of total disbursement (standard deviation)	1.2 % ( 2.0%)

<sup>17</sup> No information is available as to how the fees have changed over time since the introduction of PAP.

**3.29 Based solely on interviews and anecdotal evidence, facilitation fees paid by DEOs to PEOs and by PEOs to PTs do exist and may account for 0.5% of disbursements at most, with significant geographical variation.** From the interviews, the higher the tier of government, the higher the facilitation fees in absolute terms, but not in relative terms. At the DEO level and up, it is not clear what percentage of total disbursements is paid to the higher tier. One PEO, for instance, reported paying R150, 000 for a disbursement of R100m, while other PEOs reported paying less. The PEOs and DEOs report differently about how compulsory these payments are and the payment amounts per disbursement. Most PEOs and DEOs report that the tier immediately above them does not explicitly ask for fee payments, but since it has been common practice for a long time, it is expected. The amount varies a lot depending on individuals concerns, the relationship between the payers and the payees, and several other specific circumstances. The respondents also indicate that fee payments serve to smooth future transactions. What is known with certainty is that some facilitation fee is always paid upon any disbursement. With all this information, the fee may account for about 0.5% at each of the two tiers at most.

**3.30 At provincial level, the facilitation fees can be paid out from different sources.** In contrast with the DEOs and schools, for which the PAP is virtually the only source of cash, PEOs have more flexibility in deciding where to take the facilitation fee. From interviews, the PEO usually takes the money from Chapter 11 or PAP itself. At least two of the seven PEOs interviewed explicitly indicated that it is easier to take the money from Chapter 11 to pay out various types of informal fees as compared to other budget lines such as Chapter 10, Chapter 31, and even Chapter 13 itself.

**3.31 Overall, the leakage of PAP 2.1 funds, as measured by facilitation fees, is also small, relative to total disbursement.** Adding together the 1.5% paid to DEOs by schools, the 0.5% paid by DEOs to PEOs, and PEOs to PTs yields as a rough estimate, a payment of 2% for facilitation fees out of total disbursement.

**3.32 Altogether, leakage of PAP 2.1 funds is likely to be small, but the question of how small cannot be answered with certainty without independent records.** The PETS methodology for analyzing fund flows is fundamentally based on the triangulation of receipt data from different sources. This is done in recognition of the incentive to misreport on the part of some agencies. However, the assumption is that all agencies would produce their own records. This assumption does not hold in the Cambodian context. Own-record keeping, and record keeping in general, is very poor in DEOs and, particularly, schools. Thus, this analysis relies in many cases on outflow receipt data from the upper level rather than own-inflow receipt data. In particular, the records kept by schools and, to a lesser extent, DEOs are just carbon copies of the outflow receipts from the upper tier. While this is a major limitation of the receipt data used, we also find low levels of leakage as measured by facilitation fees.

**3.33 The only situation in which leakage of PAP 2.1 funds would be high, yet we would measure low leakage, would be that of a thick patronage system, but such a sophisticated level of collusion is not likely.** Under this system each level accepts capture from the level immediately above it as long as they can do the same with the level immediately below. For this system to work the client-citizens (i.e., parents and communities), who are the only ones being negatively affected by this process, need to either (1) be misinformed about the resources that get down to schools and how these resources are used by the school, or (2) lack a complaint mechanism that allows them to

voice their concerns. As it will be argued later, both possibilities are likely true in Cambodia. A thick patronage system in which all provider organizations, including school directors, “collude” would make it impossible to measure leakage, even with independent records.<sup>18</sup> However, although corruption is considered to be widespread in Cambodia, such a level of sophisticated collusion does not seem likely, particularly when all school directors who report paying some facilitation fees *consistently* report a small payment relative to the size of disbursement.

**3.34 Thus, despite widespread corruption in Cambodia, the leakage of PAP 2.1 funds flowing down to schools is likely to be low and can be rationalized on the basis of intended, as well as unintended, features of PAP 2.1 design and implementation.** The recent report “Cambodia at the Crossroads” (World Bank, 2004) indicates that the fiduciary risk to public funds is high because of weaknesses in all three dimensions of public financial management: budget formulation, execution, and reporting. The report also criticizes the practice of informal facilitation fee payments to various governmental institutions including the MEF and line ministries. Thus, the result of low PAP 2.1 leakage seems at odds with findings in other parts of the system. As argued above, a sophisticated system of colluding interests and actions is not likely despite widespread corruption. The low level of leakage of PAP 2.1 funds down to schools has to do with the intended, as well as unintended, characteristics of this program, which reduce the opportunities for capture of these funds, relative to other sources of education finance, even in a corrupted environment. These “positive” characteristics, as well as those that would tend to induce leakage, (which are analyzed next), provide important lessons for improving the functioning of PAP 2.1, and education finance more generally.

**3.35 Thus, most of the PAP 2.1 funding gap is explained by differences between budget allocations and disbursements to provinces rather than capture.** As mentioned earlier, the difference between what schools are entitled to and what they receive can be divided into the difference between entitlements and disbursements to provinces, and the difference between the disbursements and the funds actually received by schools. The results indicate that most of the funding gap is due to the budget execution gap.

### **Rationalizing Low Leakage**

**3.36 In order to facilitate the discussion below on the elements that make leakage of PAP 2.1 funds likely to be low, it is important to characterize the features of a low capture funding mechanism:** (1) funding is determined by a simple and clearly defined allocation rule (i.e., rule-based funding) rather than being discretionary; (2) end users know about this rule and the funds they are entitled to; and (3) control and monitoring systems are strong, including an adequate complaint mechanism. Features (2) and (3) emphasize the role of information flows both down to school (2) as well as from the bottom up (3), in order to keep the accountability relationships between the different actors involved in the process working. In addition, (3) emphasizes that even if end users are well informed, they still need an appropriate channel to file their complaints.

**3.37 The nature of the leakage found in PAP 2.1 can be identified as “survival corruption.”** The Cambodian Corruption Assessment report (USAID, 2004) compares corruption in Cambodia to the structure of a pyramid, in which some low-level officials pursue small but widespread corruption in the form of facilitation payments (“survival corruption”), while some among the politically powerful pursue large-scale corruption

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<sup>18</sup> This system would challenge the PETS methodology which relies on the assumption that some agents do not have the incentive to reveal truthful information while others do.

benefits. The nature of the leakage associated with PAP 2.1 tends to be on the “survival corruption” end of the spectrum. This conclusion is further supported by the findings of another study (Hughes and Conway, 2004), which indicates that one implication of the prevailing subordination of the state system to network interests in Cambodia is that the degree of political interest in different sector ministries varies greatly depending on the prospects that these ministries offer for control over resources and power. For service delivering ministries employing large numbers of people at a large number of facilities (e.g., MOEYS), opportunities for rent-seeking exists, but are usually diffuse, in numerous small-scale daily extractions by front-line staff.

**3.38 The PAP was introduced to address the resource flow failures of the conventional budget system – in four priority sectors.** The PAP was introduced to channel budget funds down to the facility level, bypassing the rigidities, delays, and uncertainties created by the conventional over-centralized budget execution process (WB and ADB, 2003). To accelerate the flow of funds to the facility level, the MEF (2000) indicated that the post-audit arrangement (after spending) was to be used in order to avoid the ex-ante control (before spending), and thus reduce the opportunity for captures arising from “gate-keeping.”

**3.39 Decentralization and post-audits are the two distinctive key features of PAP implementation that tend to reduce opportunities for capture.** As mentioned earlier, the execution of PAP has shifted power from the MEF to the MOEYS, including its lower-level branches. Furthermore, the PAP is subject to post-audit arrangements. In this new setting, most of the decision-making authority on budget allocation rests with the MOEYS and the PEOs and, to a less extent, the DEOs. In the case of PAP 2.1, the decentralization is even deeper, in the sense that the funds are transferred down to schools and get spent under the management of schools. These features make the PAP different from the traditional budget execution, which is highly centralized, giving rise to rigidities, delays, excessive controls and gate-keeping.

**3.40 However, the most important inhibitor of capture of PAP 2.1 funds is its formula-based nature.** In particular, under PAP 2.1, school funding for operational expenditures is not left at the discretion of PEOs or DEOs (as before the introduction of PAP 2.1 and still happens under Chapter 11). It is now determined by a simple and clearly defined rule (see Table 3.1 and Figure 3.3 above). Once the PAP 2.1 budget is approved, PTs, PEOs and DEOs are only supposed to facilitate the execution of this budget down to schools. As mentioned earlier, PEOs can prioritize the use of cash receipts from PTs across PAP activities and districts/schools, but those need to conform to the approved PAP budget at the end of the fiscal year. The political economy argument of why rule-based funding makes the capture of funds difficult can be found in Reinikka and Svensson (2002). Formula-based funding is also found to be a key inhibitor of fund capture relative to discretionary funding in other countries (Das et al., 2004). Paqueo et al (2003) show that formula-based grants tend to perform well in term of operational and allocative efficiency, and equity.

**3.41 Moreover, the formula and resulting school entitlements are known to all school directors.** Part of the advantage of a simple formula is that it is easily understood by everyone involved in the process, particularly schools and communities. However, without exact knowledge about the funds the school is entitled to, schools always face the possibility of capture by DEOs, although the extent of it depends on the strength of the monitoring and control systems. This knowledge empowers schools vis-à-vis the upper levels. However, knowledge needs to be accompanied by an appropriate complaint

mechanism that allows schools to voice their concerns to higher levels. All school directors interviewed know with precision the formula for calculating their expected annual PAP 2.1 allocation for fiscal year 2003.

**3.42 In addition to a simple formula-based funding mechanism that is known to schools, PAP introduced control and monitoring mechanisms, which signified an important change in the system.** Information needs to flow down to schools but also from the bottom up. All the PEO and DEO officers interviewed reported that since its introduction, PAP has been under the supervision of upper-level government officials as well as donors. Compared to audits on regular budget lines which are only one or two times a year, PAP inspections by government agencies are frequently conducted, although their quality is somewhat questionable. PEO officials reported to have been visited by audit teams from the MOEYS between five and twelve times annually, although not all inspections are solely about PAP (Table 3.5). DEOs reported to have been visited between five and ten times annually by audit teams mainly from the PEO. So, at least in term of quantity, checking and follow-up activities related to PAP in general, and PAP 2.1 in particular, have been numerous and, more importantly, there seems to be a perception that PAP 2.1 funds are relatively more difficult to capture.

**Table 3.6: Inspections in 2003**

<b>Level</b>	<b># of inspections annually</b>	<b>Inspectors</b>
PEO	5 to 12 times	The MOEYS' BMC and/or audit team from various technical department
DEO	5 to 10 times	The PEO's BMC or technical section of the PEO
School	Zero (20 percent) to 2 times	DEO's or PEO's BMC or technical section

*Note:* The figures as shown represent the latest situation of inspection and follow-up activities.

**3.43 There is no complicated procedure to follow for the disbursement of funds that reduces the chances of gate-keeping and capture.** When a school picks up the money from the DEO, or the DEO from the PEO, or the PEO from PT, they are not subject to any complicated document any submission requirements. Absence of overly complicated procedures greatly reduces the chance of gate-keeping and capture. The absence of complicated procedures marks a difference between PAP and the standard budget execution system, e.g., Chapter 11.

**3.44 As regards unintended features of PAP 2.1 (and PAP more generally), the opportunities for capture are further reduced by the lack of incentives of PEOs and DEOs to keep the cash for long due to security reasons.** According to all the PEOs and DEO interviewed, the PAP cash is passed down to the next level within at most two days after it is received. To the PEO and DEO in particular, it is a tremendous security risk, mainly due to robbery, to have millions of riel held in their safes. According to several DEO officials, two or three people are required to stay with the money overnight to safeguard it. This creates an incentive for them to transfer the money as fast as possible to the next level.

**3.45 These unintended features make PAP 2.1 funds very similar to teacher salaries, which are also subject to low capture.** Teacher salary payments are made by the NT transferring Chapter 10 funds (salary) to PT, PT to PEO, PEO to DEO, and school directors

coming to pick up the money from the DEO and distributing it to teachers.<sup>19</sup> To certify that the salary has been received, a payment slip with the signature of the relevant teacher is prepared and sent back to PEO as payment evidence. This arrangement is similar to that for PAP 2.1. Survey data show that teachers know the salary they are entitled to, and no evidence was found that they did not receive it. Studies in other countries have also found that salary payment is usually subject to low capture partly because the intended receivers (teachers, in this case) are well aware of what they should receive (Reinikka et al, 2003).

**3.46 The leakage finding refers to PAP 2.1 only, and cannot be generalized to other PAP programs; in fact, while PAP programs share some common features, PAP 2.1 has some peculiarities that make it less subject to capture opportunities.** PAP 2.1 is formula-based, well known by recipients, perceived to be subject to heavy controls, and its funds are spent at the facility level, all of which tend to reduce the opportunities for capture. All other PAP programs for primary education do not have a simple and clearly defined allocation rule, and are less well known. In particular, interviews with school directors, teachers, and DEO officials revealed that the control mechanisms and disbursement procedures for those PAP budget lines, including PAP 2.2 (remedial class money), PAP 1.1 (technical assistance and rewards), PAP 1.2 (deployment) PAP 1.3 (remote area teaching) and PAP 7 (textbooks), are usually still not clear, somewhat confusing and loosely controlled. Almost all school directors do not know about these other PAP budget lines and more than half of the DEO officials do not exactly know how they work, who is responsible for what, etc. In addition, in the case of textbooks, school records are practically non-existent.<sup>20</sup> In-kind transfers to schools and textbooks in particular, have been shown in other countries (e.g., Indonesia) to be subject to more capture than cash transfers. Schools are also required to keep records for PAP 2.2 and PAP 1.1 but they do not. Teachers usually collect remedial and PAP 1.1 allowances from the DEO and school directors have very little knowledge about these payments.

**3.47 Thus, compared to the other PAP programs, and particularly the standard Chapter 11 budget line, PAP 2.1 is less attractive for capture.** As it will be further elaborated in section 3.2, Chapter 11 leaves at the total discretion of PEOs any transfer in cash or in-kind to DEOs and schools, and only 4 out of 21 DEOs and none of the school directors in the sample had ever heard of Chapter 11. In addition, Chapter 11 is subject to weak controls, particularly petty cash, compared to PAP. In fact, in a general equilibrium sense, lower opportunities for capture in PAP might mean higher leakage in the standard system (i.e., Chapter 11). The overall effect of introducing a better system in a weak fiduciary environment might be to shift malfeasance rather than eliminate it.

### **Challenges: control and monitoring mechanisms**

**3.48 There are other features of PAP 2.1 (or the lack of them) that need to be addressed if leakage is to be prevented, and implementation is to be improved more generally.** These challenges have to do with control and monitoring mechanisms and include poor reporting, low quality of monitoring, and the absence of a complaint mechanism. Based on field observations, part of the reason why PAP is subject to low capture is because different actors involved in the process were still not sufficiently familiar with it so as to be able to manipulate or exploit it. This makes it urgent to strengthen the current control and monitoring system.

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<sup>19</sup> In practice, however, the majority of teachers pick up their salary directly from the DEO.

<sup>20</sup> A school record is required for the stocking and flow of textbooks, both for control purposes and for requesting additional textbooks every year.

**3.49 To ensure reliable monitoring of PAP 2.1 (and other PAP activities) a standardized record-keeping requirement is needed,** whereby detailed information on PAP sub-budget lines should be produced. In particular, usually the relevant offices visited tended to keep records only on budget lines, such as PAP 2, but not on sub-lines, such as PAP 2.1 and PAP 2.2. Moreover, MEF should institute a quarterly in-year expenditure reporting system for central ministries for PAP transfers, and should ensure that these are included in the accounts compiled by the Treasury and in regular fiscal reports.

**3.50 Compliance with some record-keeping requirements has been poor, especially at the DEOs and schools.** DEOs and schools are required to record cash receipts in their Budget Tracking Book and keep supporting receipts. In practice, however, some DEOs, and a greater number of schools, failed to comply with this requirement, and some of them even lost most of the supporting documents. As noted earlier, the lack of independent supporting documents limits the ability to monitor fund flows. Problems with poor record keeping are compounded by poor archiving of documents at the DEO and school levels, making it messy and vulnerable to theft and destruction due to rains, storms, floods etc. With poor archives, some school directors and the DEO's BMC officers keep most of the records at their homes.

**3.51 The unreliability of receipts and other financial documents is another problem.** As described earlier, endorsements by various stakeholders of certain accounting documents are required to ensure the reliability and validity of the documents. In practice, however, field observations suggest that producing false receipts and documents is easy. For example, there is a lack of separation between those who make the spending decisions and those who make the payments. In some cases, due to staff shortages or other reasons, different documents are endorsed by the same person. For example, the accounting officers and cashiers at the DEO level are often the same person. Even when they are two different individuals, the separation of responsibilities is often not clear. At schools, especially those in remote areas, the school director may also act as cashier or treasurer. Due to a weak state and a weak civil society, the Cambodian political system relies heavily upon informal and patronage-based networks. To the extent that the officials endorsing PAP documents are subject to these networks, the independence and validity of their endorsement may be called into question. In addition, field observations suggest endorsements are sometimes done as mere formality, with no sufficient involvement to be able to make a reliable judgment, particularly in the DEOs and schools.

**3.52 Field inspections and follow-up activities to monitor PAP implementation are of questionable quality.** As noted earlier, inspections are numerous. However, based on responses from over 100 school directors, most school inspections last for a half day, do not follow any standard procedures, and no official reports are issued as a result of the inspections.<sup>21</sup> This makes it difficult to see how the MEF could conduct proper oversight. Moreover, the National Audit Authority does not exercise regular external oversight over the PAP program at this level, which means that overall audit coverage—in terms of quality and quantity—is limited. The interviews also reveal widespread complaints, among PEO and DEO officers, that small mission allowances do not allow them to conduct regular and quality inspections at DEOs (for PEO officers) and schools (for both PEO and DEO officers). Furthermore, together with the lack of incentives to conduct quality inspection, poor and messy records at DEOs and schools make the quality of monitoring activities questionable.

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<sup>21</sup> The data is from the qualitative interviews carried out in addition to the survey questionnaires. There is no information on the duration of inspection visits to DEOs and PEOs.

**3.53 In the current system, there is no mechanism for filing complaints about PAP implementation.** Even when actors at the different levels are well informed about the process, the value of this information is diminished if no complaint mechanism exists to voice their concerns to higher levels.

**3.54 Though the PAP reporting system is fairly well designed, the lack of incentives to comply with record keeping, reporting, and inspection activities has frustrated the government's attempt to reduce fiduciary risk.** With no apparent penalties for non-compliance, and no reports of disciplinary sanctions applied, with no external oversight, and with extremely low wages and a lack of meritocratic promotion practices, civil servants do not have strong incentives to comply with the system.

### **Challenges: capacity, workload and supporting facilities**

**3.55 Capacity poses a major constraint on PAP implementation.** According to the IFAPER (WB and ADB, 2003) and several senior MOEYS officers, rapid expansion of PAP activities brought to light concerns about the capacity of BMC officers, especially in budget preparation, costing, accounting records and reports, financial control procedures and control systems. These concerns are also shared by the MOEYS, PEOs, DEOs and school officers interviewed during the survey. While some training has been provided, implementation of PAP has been mainly a learning-by-doing process. Training for school directors on PAP spending happens erratically and is generally too intense, with a lot of detailed financial and technical information presented, but no background information on PAP provided. Apart from formal training, school directors learn about PAP by turning to DEO officers for advice when facing certain problems which, while cost-effective, does not guarantee adequate training. The knowledge on PAP by DEO officers is still generally insufficient. According to the survey, all school directors, and district and provincial officers have at least one copy of the PAP implementation manual, and they all find it useful. However, the manual is not practical or user-friendly, particularly for DEO officers and school directors, as it simply compiles laws and regulation on financial management, many of which do not apply to DEOs or schools.

**3.56 The issue of capacity is compounded by the issue of excessive workloads and little operational funding.** PAP brought along a significant additional workload for officers, especially those working in PEOs, DEOs and schools. There is, however, little additional operational funding for PAP-related activities (R1 million per year for each DEO and PEO). The additional workload draws many complaints, particularly from school directors, who claim that PAP-related tasks, especially the monthly PAP spending report preparation, take a large amount of their time and efforts, leaving little time for routine school management tasks. The workload is even heavier for schools in rural and remote areas, where school directors usually have to undertake many tasks, including accounting and other office tasks.

**3.57 In addition, there is shortage of supporting facilities at the different levels.** Despite recent improvements, office equipment and supplies, including computers and photocopiers, that are necessary for the preparation of various PAP documents are adequate at PEOs, but not at DEOs and schools. Most of the PEOs visited have a photocopy machine and more than one computer. On the contrary, only 20% of sample DEOs have a functional computer and none has a photocopier. Based on interviews, in some provinces, a computer is provided to each DEO. However, most of the districts cannot operate them since they do not have power during the daytime, and they sometimes do not have the staff with the necessary skills to operate computers. There is also a shortage of archiving

facilities at PEOs, DEOs and schools. At the PEOs, supporting documents such as receipts of previous years or months are tied up together, often not in an orderly manner, and placed in a space within the PEO building. For the survey, it was difficult to obtain two-year-old documents. At the DEO, the archives are arranged in more or less the same way as in the PEO except that some DEOs do not even have proper archiving facilities, and thus usually keep documents at the DEO chief's or officers' houses. Archives at schools are even worse.

## PAP 2.1 – TIMING AND DISTRIBUTION OF DISBURSEMENTS

**3.58 Schools get most of the funding they are entitled to but the timing and distribution of disbursements may have significant efficiency implications for schools.** As noted earlier, most of PAP 2.1 budget allocations are effectively disbursed to schools. However, from a resource flow efficiency perspective, it is also important to investigate the timing and size of disbursements relative to the needs of the schools during the school year. If payments do not come when needed the most, i.e., around the start of the school year, or if their frequency is high but their size is too small relative to the needs of the school, or if they are unpredictable, then this would result in higher costs of providing education services and inefficiencies in the use of schools funds. This section addresses these issues by first describing the timing and distribution of disbursements, and then relating those to school operations.

### Profile

**3.59 Since its introduction in 2000, PAP funds, including PAP 2.1 funds, have been subject to significant disbursement delays, although there are recent signs of improvement.** As advanced in the previous section, the possibility of carrying funds over to the following year is both the result of and, possibly, a contributing factor to the delay in disbursements. With this system, delays in the disbursement of the PAP 2.1 budget for a given fiscal year are the result of this year's delays and previous years' delays, as the budget for one year cannot start being disbursed until the previous year's budget has been disbursed. There is no rule on the timing and distribution of PAP 2.1 disbursements, but it is expected that the fixed grant component should be disbursed as one lump sum at the beginning of the school year. Table 3.7 shows that in 2000, and for all four provinces, the first PAP 2.1 disbursements arrived in the fourth quarter of the year, and continued until the second quarter of 2001. The 2001 PAP 2.1 budget on the other hand, first reached schools in the third quarter of the year and went on until the first or second quarter of 2002. The budget year 2002 experienced the worst delays, with the first disbursement made the last quarter of the year and the last disbursement made in the last quarter of 2003. The first disbursement of 2003 PAP 2.1 funds were in the last quarter of 2003, and the last in the third quarter of 2004 (August 2004), which is the best performance to date.

**3.60 There are significant variations in the timing of disbursements across provinces.** As mentioned earlier, these differences are due to decisions at both the central level (MOEYS, MEF and NT) as well as at the discretion of the PEOs over the timing of disbursements across PAP activities and districts/schools. Chapter 4 will examine the equity of these decisions.

**3.61 Usually, in addition to delays, PAP 2.1 funds are disbursed to schools in many small installments.** For the 2000 budget year, the representative schools received four PAP 2.1 installments, each one representing, on average, 24% of the total receipt, with a minimum disbursement of about 10 percent. The 2002 budget year had the worst

performance, with the average school having 5 installments, with a minimum installment of 7.4 percent. This is also the year with the greatest variation across schools in different provinces, with the average Kampot and Prey Veng school having 9 and 10 installments, respectively, while the average school in the other provinces averaged between 4 and 5 installments. Some PEOs or DEOs report to have held money when disbursements would be too small. However, such practice did not happen frequently, as the PEOs or DEOs prefer to disburse the money to the lower tiers once it is available due to security reasons.

Table 3.7: Timing and distribution of PAP2.1 disbursements to schools

Province	Year	Cumulative percentage of funds received by schools								Distribution of disbursements (school level averages)			
		Current year by quarter (%)				Following year by quarter (%)				# of receipts	Max (%)	Min (%)	Average (%)
		1	2	3	4	1	2	3	4				
Bantey Meanchey	2000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2001	-	-	51.5	51.5	100.0				2	52.9	47.1	50.0
	2002	-	-	0.3	45.9	45.9	59.3	100.0		3	51.1	14.5	33.3
	2003	-	-	-		63.4	100.0			2	52.3	36.3	45.1
Kampong Cham	2000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2001	-	-	45.0	45.0	45.0	100.0			2	55.3	44.7	50.0
	2002	-	-	-	57.5	57.5	73.8	100.0		4	55.4	3.9	25.0
	2003	-	-	-	30.7	93.5	100.0			5	33.4	6.3	20.0
Kampong Chhnang	2000	-	-	-	14.5	35.8	97.8	100.0		5	47.4	4.9	14.3
	2001	-	-	31.7	49.1	49.1	100.0			3	49.3	18.1	33.3
	2002	-	-	-	49.9	50.1	77.2	100.0		4	49.9	5.2	28.8
	2003	-	-	-	4.1	97.7	100.0			2	65.1	28.4	46.0
Kampot	2000	-	-	-	35.9	48.7	100.0			4	32.4	18.6	25.3
	2001	-	-	21.8	49.5	49.5	49.5	100.0		5	47.3	8.0	19.9
	2002	-	-	-	38.7	60.2	80.8	91.6	100.0	9	32.5	4.3	11.1
	2003	-	-	-	36.4	99.2	100.0			3	62.2	15.4	36.7
Kratie	2000	-	-	-	44.9	70.7	100.0			4	36.7	14.9	26.5
	2001	-	-	51.2	51.2	56.1	100.0			3	54.7	24.6	41.2
	2002	-	-	-	18.1	48.7	83.7	100.0		3	50.8	18.8	33.3
	2003	-	-	-	42.5	100.0	100.0			3	52.0	20.8	36.0
Prey Veng	2000	-	-	-	13.1	17.9	100.0			4	52.8	4.3	22.4
	2001	-	-	47.5	47.5	74.0	100.0			4	50.7	8.5	25.0
	2002	-	-	-	46.6	54.1	68.2	97.2	100.0	10	34.6	2.5	9.7
	2003	-	-	-	28.5	100.0	100.0			3	69.0	10.8	33.3
Sihanoukville	2000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	2001	-	-	55.3	75.8	100.0				2	58.1	41.9	50.0
	2002	-	-	-	50.2	50.2	100.1			3	48.2	12.4	33.3
	2003	-	-	-	12.7	89.4	100.0			5	46.4	5.7	20.0
<b>Total</b>	<b>2000</b>	-	-	-	<b>24.9</b>	<b>38.8</b>	<b>99.5</b>	<b>100.0</b>		<b>4</b>	<b>43.5</b>	<b>10.1</b>	<b>23.5</b>
	<b>2001</b>	-	-	<b>43.6</b>	<b>49.2</b>	<b>63.0</b>	<b>100.0</b>			<b>3</b>	<b>52.6</b>	<b>29.1</b>	<b>39.1</b>
	<b>2002</b>	-	-	<b>0.1</b>	<b>47.6</b>	<b>53.2</b>	<b>73.8</b>	<b>98.7</b>	<b>100.0</b>	<b>5</b>	<b>46.6</b>	<b>7.4</b>	<b>23.3</b>
	<b>2003</b>	-	-	-	<b>21.4</b>	<b>89.4</b>	<b>100.0</b>			<b>3</b>	<b>52.2</b>	<b>16.6</b>	<b>32.7</b>

Note: Figures for 2003 refer to disbursements up to May 2004. The bold shaded figures indicate the maximum accumulated amount of PAP2.1 received compared to entitlement amount. The average number of disbursements for each year is a rounded-up figure.

**3.62 As a result of some technical problems at the national level, the 2002 PAP budget year had the longest delays as well as the most thinly spread disbursements.** The MOEYS and the MOH experienced difficulties in securing the release of PAP funds in 2002 due to delays in procurement procedures and difficulties in establishing decentralized management at provincial and district levels. The 2002 PAP funds for education were delayed until a regulatory framework for proposed spending was agreed upon in October 2002, which set the per-school and per-student allocations and the guidelines on the use of school operating budgets.

**3.63 Since the introduction of the program, the problems with the delays and distribution of disbursements of PAP 2.1 funds, and other PAP budget lines, have originated at the national level, rather than at provincial or district levels.** As mentioned earlier, PAP funds are kept in the hands of PTs, PEOs and DEOs for a short period of time, usually between one and three days.<sup>22</sup> This indicates that the problem with delayed and thinly spread distributions originates at the national level (MOEYS, MEF). Technical difficulties there are compounded by delays accumulated from previous years.

### **Impacts on school operational efficiency**

**3.64 Disbursement delays and thinly spread distributions have an impact when they interfere with the financial needs of schools.** PAP 2.1 funds are to be used to support start-of-the-year operational costs as well as day-to-day school operations. PAP 2.1 funds are intended to cover small expenditures on basic teaching materials, sports, school environment improvements and other small spending items primary schools usually incur. The fixed grant component, R500,000, is expected to be disbursed first in any given budget year so as to allow schools to purchase teaching materials and carry out the school opening ceremony at the beginning of each school year (October). The R6, 000 per-student component of the budget is provided to support daily operation of the schools. From interviews, schools need about 30% of their total PAP 2.1 entitlement for the start of the school year, and preferably need the money in September. Beyond the start of the school year, schools need a smooth and predictable flow of money to able to cope with daily operations.

**3.65 PAP 2.1 disbursements have failed to meet the financial needs of the schools at the beginning of a school year.** The first PAP 2.1 disbursement usually comes in as late as the last quarter, except for the budget year 2001 in which the first PAP 2.1 disbursements of more than 30% of the total entitlement arrived in the third quarter. On a monthly basis, however, the data indicate that quite often the first disbursement reached schools in the second half of October or in November, once the school year had already started. More importantly, Table 3.8 examines the proportion of funds disbursed around the start of the school year (September and October) as a proportion of total disbursements for each fiscal year, as well as entitlements for that year. It shows that in 2000, schools in pilot provinces received almost nothing around the start of the school year. The situation improved in 2001 with a 9% average disbursement, which is still well below the desired 30 percent. However, schools in 4 provinces did not receive anything around the start of the year. The situation was similar in 2002. For the 2003-04 school year, funds from the 2002 and the

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<sup>22</sup> According to PEOs, PAP funds are on occasion (e.g., during the rainy season) kept for more than a week at PEOs due to transportation limitations.

2003 budgets contributed to the start of the school year, although they did so in fairly small amounts and, in the case of budget year 2003, only covering Sihanoukville.

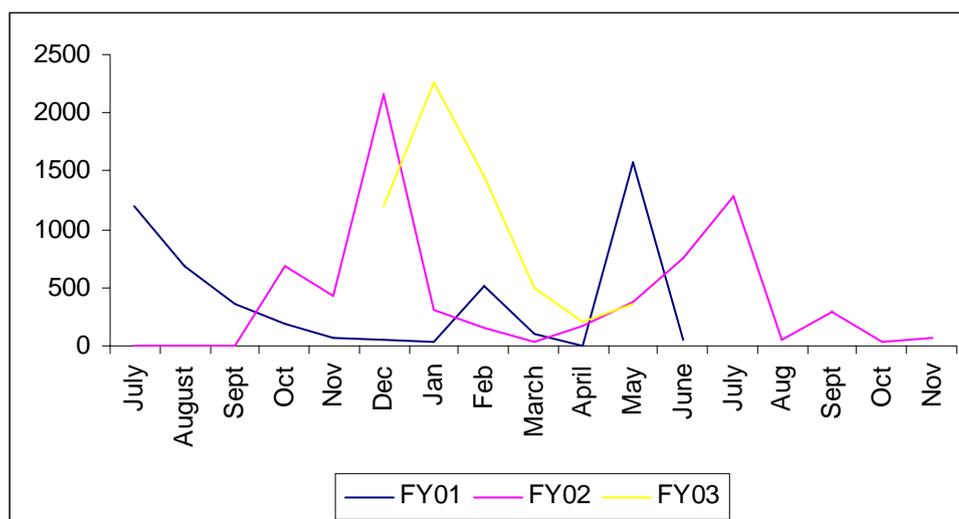
**Table 3.8: Percentage of PAP 2.1 funds received around the start of the year**

<b>Province</b>	<b>Year</b>	<b>% Total receipts</b>	<b>% Entitlements</b>
Bantey Meanchey	2000	n/a	n/a
	2001	0.0	0.0
	2002	10.6	10.4
	2003	0.0 (FY02)/0.0 (FY03)	0.0(FY02)/ 0.0 (FY03)
Kampong Cham	2000	n/a	n/a
	2001	0.0	0.0
	2002	3.9	3.3
	2003	0.0 (FY02)/	0.0 (FY02)/ 0.0 (FY03)
Kampong Chhnang	2000	0.0	0.0
	2001	51.0	40.4
	2002	0.0	0.0
	2003	7.5 (FY02)/ 0.0 (FY03)	7.6 (FY02)/ 0.0 (FY03)
Kampot	2000	0.0	0.0
	2001	29.2	23.0
	2002	8.7	8.4
	2003	10.4 (FY02)/ 0.0 (FY03)	10.1 (FY02)/ 0.0 (FY03)
Kratie	2000	0.5	0.6
	2001	21.2	17.1
	2002	20.1	19.8
	2003	0.0 (FY02)/ 0.0 (FY03)	0.0 (FY02)/ 0.0 (FY03)
Prey Veng	2000	0.0	0.0
	2001	0.0	0.0
	2002	14.7	13.9
	2003	14.5 (FY02)/	13.5 (FY02)/
Sihanoukville	2000	n/a	n/a
	2001	0.0	0.0
	2002	13.9	14.1
	2003	0.0 (FY02)/18.3 (FY03)	0.0 (FY02)/15.6 (FY03)
Total	2000	0.1	0.1
	2001	10.1	8.4
	2002	9.2	8.8
	2003	4.7 (FY02)/0.1 (FY03)	4.5 (FY02)/0.7 (FY03)

*Note:* For 2003, there were two figures corresponding to the 2002 PAP budget (FY02) and the 2003 budget (FY03).

3.66 **PAP 2.1 also failed to provide a smooth flow of cash after the start of the school year.** Schools in some provinces received no additional funds for one or two quarters after receiving the last disbursement. Schools in Kampong Cham in 2001, for example, received none in the fourth quarter of 2001 and in the first quarter of 2002 after it received the first fund releases in the third quarter of 2001. Figure 3.4 shows that for the average school the disbursement of each year's budget is far from smooth.

**Figure 3.4: Flow of PAP 2.1 per-pupil disbursements for the average school**



*Note:* For a given fiscal year, the figure only shows disbursements from the month the previous PAP 2.1 stops disbursing completely. The figure does not include data for the 2000 budget year since the coverage of the program and the formula are different with respect to the other years.

3.67 **Furthermore, PAP 2.1 disbursements are very unpredictable from one year to the next.** Figure 3.4 shows the lack of any pattern in the flow of PAP 2.1 funds over time. In particular, what schools get in a particular month of a given year is not a good predictor of what the school will be getting the same month the following year. This unpredictability of funds mainly reflects the unpredictability of cash availability at the NT.

3.68 **To deal with the cash constraint resulting from inadequate and unpredictable PAP 2.1 fund flows, schools either resort to credit purchases or they simply do not undertake certain activities.** In order to deal with cash constraints, whether it is at the start or during the course of each school year, schools usually arrange credit purchases with suppliers of teaching materials, among others, at a price marginally higher than that of cash purchases. Based on interviews and observation, the unit price of credit purchases of some common teaching materials (e.g., A4 papers, pens, and chalks) is about 5% higher than those of cash purchases.<sup>23</sup> Thus, inadequate and unpredictable funds result in higher costs of providing education services. Furthermore, in cases where cash-constrained schools do not engage in credit purchases, certain planned activities and purchases are foregone. In particular, if a school needs at least R500, 000 to start up the new school year, but only receives R50, 000, it either has to purchase goods and services on credit or forego some of these purchases. This leads to a sub-optimal, from the perspective of the school, allocation

<sup>23</sup> This figure is based on a random check of some PAP 2.1 spending reports that schools send to DEOs and PEOs.

of funds. Such difficulties have been raised by most school directors, particularly in reference to the 2002/03 school year.

**3.69 The unpredictability of PAP 2.1 fund flows also leads to inefficiencies in the use of funds by making it hard for schools to plan ahead and to implement existing school plans.** Anecdotal evidence from the field indicates that as a result of the uncertainty of PAP 2.1 funding flows, schools find it difficult to come up with any plans for the following school year or to even implement the current school plan. As a result of uncertainty about the following year's funding, schools often use the current year funds to purchase some equipment for the following year instead of using the money for current year's uses. Thus, the unpredictability of funds leads to misallocation of funds.

**3.70 A thinly spread distribution of funds increases transaction costs.** Based on interviews, having too many small-volume disbursements increases transaction costs in transferring funds from the PEO to the DEO and from the DEO to the school, as these transactions involve physical visits to pick up the money. These costs include (i) transportation costs, particularly for schools located in remote areas; (ii) "mission allowances", which might include food and accommodation for the person(s) coming to pick up the money;<sup>24</sup> and (iii) "facilitation fees" that need to be paid out. As noted earlier, facilitation fees are not strictly proportional to the disbursement amount as there is usually a minimum fee between R2, 000 and R5, 000 per transaction. Thus, the total amount paid for facilitation during the year increases with the number of transactions.

### **PAP 2.1 – FUND USE AT SCHOOLS**

**3.71 How funds are used at schools is as important as the flow of funds to the schools, but the lack of school records prevented a rigorous quantitative analysis of school spending.** As mentioned in the introduction, even when resources reach schools, and they do it in a way that meets the financial needs of schools, these resources may still fail to yield better student outcomes to the extent that they are diverted to non-intended uses, particularly uses that lie outside the school system, i.e., within school leakage. Schools are required to prepare PAP spending reports and get those approved by the DEO. However, the key data for the analysis of the use of funds come from the receipts supporting these spending reports and, whenever appropriate, the physical inspection of the goods claimed to have been purchased. However, these data are practically non-existent. At best, schools would produce receipts accounting for a small percentage of PAP 2.1 spending. Thus, the idea of collecting these data was abandoned.

**3.72 The focus of this analysis is on fund misuse arising from leakage within schools.** In particular, PAP 2.1 funds can be spent in ways that differ from the guidelines specified in Table 3.2 without compromising efficiency in any clear way. Actually, these spending guidelines are often criticized, and this criticism is reflected in the interviews with school directors, for being too rigid and for not being able to respond, in most cases, to the needs of schools. The type of fund misuse that clearly has efficiency implications is that arising from the diversion of PAP 2.1 funds for uses that lie outside the school system, i.e., within school leakage.

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<sup>24</sup> See the section on Chapter 11 for more information on mission allowance.

3.73 **However, while we cannot measure the extent of fund misuse at the school level, we can examine the factors and conditions that can potentially lead to it, so that informed policies can be developed.** In particular, using the accountability framework put forward in the introduction, the assessment of the quality of the control and monitoring mechanisms governing the relationship between school directors and DEO/PEO/MOEYS, on the one hand, and between school directors and parents/community, on the other hand, gives us an assessment of the strength of these relationships, and thus the potential for fund misuse.

3.74 **In particular, it is argued below that weak control and monitoring systems, and in particular the failure of the accountability relationship between school management and parents/communities, can potentially lead to serious fund misuse.** Under the patronage system described earlier, school directors would accept capture from the higher levels as long as they can also divert some school funding for their own personal uses. It was argued that such a system is unlikely to exist on a large scale. Under a system with no such generalized corruption, control and monitoring of school directors by DEOs, PEOs and MOEYS would reduce the opportunities for capture by school directors. We find the quality of these control and monitoring mechanisms to be weak. However, even if these mechanisms functioned adequately, sole reliance on them would be insufficient to guarantee the appropriate use of resources, particularly in countries with rampant corruption, such as Cambodia, where a credible institutional framework does not exist. Strong “client power” is needed.

3.75 **Under these circumstances, strengthening the accountability of school management by parents is a key priority.** In particular, measures to empower parents by providing them with the necessary information to monitor school performance and encouraging them to participate in the management of schools would reduce the opportunities for fund misuse and would, more generally, improve service delivery in education. Parents and communities need information on school finances and other aspects of school performance, including teacher performance, and the ability to use this information to make credible threats to school directors and teachers. An active parent association or school support committee with parent involvement can strengthen enforceability.

### **Assessment of control and monitoring mechanisms**

3.76 **Compliance with PAP spending reporting has been improving, but there is still uncertainty among schools about when they are required to report.** Schools are required to prepare PAP spending reports and get those approved by the DEOs, which then compile and forward them to PEOs, etc. Table 3.9 shows that 74% of the sample schools claim to have sent the reports to the DEO in the 2000/01 school year, 97% in 2001/02, and 100% in 2002/03. However, the number of reports sent to the DEO varies a lot, and school directors interviewed understand differently their spending reporting obligations: some said the reports need to be prepared and sent to the DEO monthly, whereas some said they need to be made only when spending was incurred. From our data, of all schools that claimed to have sent PAP spending reports to the DEO, only 12, 16, 33% in 2000/01, 2001/02 and 2002/03 school years, respectively, sent the reports monthly to the DEO.

**Table 3.9: PAP spending reports from schools by school years**

	2000/01	2001/02	2002/03
% of schools that sent PAP spending reports to DEO in	74	97	100
<i>Out of those who did sent the reports,</i>			
% of schools that sent PAP spending reports to DEO on monthly basis in	12	16	33

**3.77 More importantly, PAP 2.1 spending reports are not reliable and do not serve any monitoring purpose, particularly when they are not supported by receipts.** Spending reports are not accompanied by supporting receipts and are not prepared to comply with the guidelines specified in Table 3.2. A close look at reported PAP 2.1 spending reveals clear inconsistencies. For example, the survey identified numerous spending reports with impossible spending amounts such as “R9, 765 was spent on flower pots” – the smallest bill is for R50. The majority of school directors and DEOs interviewed (over 80 percent)<sup>25</sup> recognized that they sometimes have to prepare and approve spending reports which are different from actual spending, although they said they do it for justifiable reasons that have to do with the lack of flexibility of PAP 2.1 spending guidelines. For instance, although spending is not allowed on big repairs and maintenance, PAP 2.1 is still sometimes used for storm-related school repairs (e.g., storm-damaged-roof). In some cases the guidelines are not realistic. For instance, according to MEF-MOEYS (2002), the cost of photocopies should not exceed R35 per page, but this rate is not adequate in certain areas. Therefore, to have their spending reports accepted by the DEO, schools adjust their reports to comply with the guidelines, ignoring the actual spending patterns. School directors interviewed say that they inform the DEO about such practices and that the DEO approves them. DEOs interviewed confirmed being informed by school directors of such practices. Whether spending reports are modified for justifiable reasons or to cover up leakage, the fact of the matter is that they do not serve any monitoring purpose.

**3.78 School inspections are less frequent and are of lower quality than those to DEOs and PEOs, particularly on financial issues.** As shown earlier in Table 3.6, in 2003, schools were visited only up to a maximum of 2 times, and 19% of the schools were not visited at all. In addition, 94% of the visits involved some checking of PAP 2.1 spending. Also, as mentioned earlier, most school inspections last for a half-day, do not really follow any procedures, and no official report is issued as a result of the inspections. Furthermore, the quality of inspections is questionable given that school records are by far poorer and messier than those of the DEOs and PEOs. This is particularly so in the case of PAP spending, where supporting receipts are almost non-existent. The financial incentives of DEO officials to conduct quality school inspections are also lower than for PEO officials to visit DEOs, as PEOs have more discretionary funds for mission allowances, through Chapter 11 petty cash, than DEOs.

<sup>25</sup> The figures are from qualitative interviews carried out in addition to the survey questionnaires.

## Client power: Community involvement and access to complaint mechanisms

3.79 **The various committees and sub-committees established at schools to monitor PAP spending are not very effective tools, particularly in small schools.** In general, and despite the due division of responsibilities, school directors and cashiers are still highly influential in budget management as well as procurement. Contrary to regulations, the procurement of different types of goods is usually done by the same person(s), particularly school directors. These situations are partly explained by staff shortages, but more importantly, they reflect a lack of active involvement of teachers, SSC members and parents in school matters, which is further elaborated below.

3.80 **The knowledge of teachers, SSC members, and particularly parents, about PAP funding is still limited.** For teachers, SSC members and parents, PAP 2.1 and PAP are the same thing. According to Table 3.10, although 97% of teachers and 83% of SSC members know what PAP is, these percentages dropped significantly when it comes to knowing about the PAP entitlements for the school and spending guidelines. Among teachers who know about PAP, 56% know about the R6, 000 per-student component, but only 25% know about the R500, 000 per-school component. Most teachers and SSC members know of the existence of PAP spending guidelines, but only a few of them know the details of the guidelines. Only 9% of parents, however, know or have ever heard of PAP and that is all they know.

**Table 3.10: Awareness of teachers, SSC members and parents about PAP**

<b>Respondents</b>	<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

3.81 **Teachers are not only more informed but they are also more involved in the monitoring of PAP spending, although their role is still limited.** As noted above, teachers have more information about PAP than SSC members and parents. Teachers participate in SSC meetings to discuss school matters, including PAP. From the data, in 2002/03, and 2003/04 school years, on average, teachers attended almost all SSC meetings. Based on survey observations, during these meetings, most of the problems associated with PAP spending are raised by teachers. However, the role of teachers in monitoring PAP is still limited. The latter is partly explained by the combination of work responsibilities outside teacher hours (70% of teachers have another job besides teaching), low teacher pay, and the lack of financial incentives to get involved in monitoring.<sup>26</sup>

<sup>26</sup> On average, the salary for teachers interviewed is R115,000 (almost USD30) per month.

**3.82 The SSC represents the community when it comes to school affairs, although the level of community representation is questionable.** The SSC is an old traditional civil society group existing side by side with schools. There was a SSC or Parental Association at all sample schools with an average of 6 members. Usually, the SSC and the Parental Association are the same institution. About 53% of the SSCs are elected. However, on average, only about 54 parents attend these elections. Usually, whoever gets nominated is elected, and in more than 50% of the elections it is the school director who nominates the SSC members. Only 9% of SSC members are women. Although 85% of SSC members say they represent parents, SSC members tend to be older, religious, and well-respected individuals, and some of them (over 30 percent) also serve in Wat (pagoda) committees.<sup>27</sup> Thus, it is again unclear the extent to which parental interests are adequately represented in SSCs.

**3.83 Beyond endorsing various financial documents prepared by schools, there are no regulations regarding the role the SSC should play, although they are expected to provide a key accountability role.** Although all PAP-related documents are required to be approved by one SSC member, in practice, however, the effectiveness of these endorsements as a monitoring tool is questionable, since SSC members do not know much about the funds the school is entitled to and how these funds should be used. A study by the MOEYS in 2002 on the relationship between schools and the community recognized the importance of the community in improving education in Cambodia, and making school management accountable. The roles of the community identified by the study include: (i) raising local awareness about the importance of education; (ii) assisting schools in mobilizing resources for school improvements – e.g., construction, repairs and maintenance – such as holding religious contribution ceremonies, seeking support from rich individuals or donor organizations from both in and outside the communities; (iii) conducting evaluation and follow-ups on education quality; and (iv) participating in school budget management. As regards the school budget, including PAP management, there seems to be no clear detailed procedures. The study only says that school management is supposed to document all financial transactions and make those ready for inspection and known to the SSC.

**3.84 In practice, however, the work of SSCs is strongly focused on assisting schools in mobilizing resources for school improvements rather than monitoring of PAP spending.** The SSCs met, on average, four times in 2002/03. According to SSC members, the most important issue discussed during these SSC meetings is school construction and maintenance (42 percent), followed by PAP spending (29 percent), and encouragement of students to attend school (16 percent). These results are not biased by the possible lack of attendance or knowledge of PAP issues, as school directors list the same issues in the same order.

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<sup>27</sup> Traditionally, SSCs have worked very closely with pagodas. In the past, pagodas functioned as schools while monks functioned as teachers.

**Table 3.11: Three major issues discussed at SSC meetings (%)**

	According to SSC members			According to school director		
	First	Second	Third	First	Third	Second
PAP spending	29.1	12.3	12.0	14.5	13.5	16.5
Encourage students	16.3	21.7	11.4	23.5	26.0	16.5
School construction	42.0	35.1	6.9	40.5	22.0	10.0
Fundraising	4.0	11.1	17.4	3.5	10.5	16.5
Other	8.0	11.8	12.3	18.0	28.0	40.5
Not applicable	0.1	7.7	40.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Note:* Sample: 350 SSC members and 200 school directors. The “non applicable” response means that the respondent did not list any other major issue.

**3.85 More importantly, parents are not informed about PAP matters and are not involved in the monitoring of PAP 2.1 spending, reflecting a more general lack of knowledge and involvement in school matters.** Parents do not appear to be adequately represented in the control of schools. The SSC fails to be an effective monitoring tool of PAP 2.1 spending. As noted earlier, only 9% of parents know about PAP and that is all they know. The lack of knowledge of PAP and the lack of involvement in SSC activities reflect the lack of knowledge of, and involvement in, school matters, generally (Table 3.12). Most parents do not attend the school opening ceremony (12% of parents did not even know if there was an opening ceremony). Outside of the opening ceremony, very few parents meet with teachers or the school director during the school year.

**Table 3.12: Parental involvement in school matters in school year 2003-04**

	Yes (%)	No (%)	Don't know (%)	Average <sup>3</sup>
Was there a school opening ceremony?	54.0	34.0	12.0	
Did you attend <sup>1</sup> ?	31.4	68.4	0.2	
Did you meet with teachers <sup>2</sup> ?	12.7	81.2	5.5	
How many times did you meet?				2
Did you meet with the school director <sup>2</sup> ?	8.1	86.5	5.5	
How many times did you meet?				2

*Note:* (1) Provided there was a ceremony or parent knew about it. (2) Other than in the school opening ceremony. (3) Only for those who met. Sample: 1007 parents.

**3.86 Despite this lack of participation in school matters, parents do contribute financially to schools.** Over 97% of parents reported to pay no school starting fees in 2003/04, and almost 94% for the 2002/03 school year. This indicates that the policy accompanying the introduction of PAP 2.1, whereby start-of-the-year fees were abolished, has been successful. However, a significant number of parents still make contributions to schools – in 2002-03 (20 percent), whether in cash (17 percent) or in kind (6 percent). The median value of the contribution was R2, 000 (\$0.5) in 2003/04 and R3, 000 (\$0.75) in 2002/03. The contribution is commonly voluntary and not against any regulation. In fact, it is encouraged so that schools can cover expenses not allowed under PAP spending guidelines such as big repairs and maintenance. Data also indicated to us that less than 5% of parents reported paying informal fees to teachers.

3.87 **In the current system, there is no mechanism for filing complaints about PAP spending.** Even when parents and communities are informed about PAP spending, they cannot use this information very effectively in the absence of a formal mechanism to voice their concerns to the authorities.

## 4. EFFICIENCY OF PUBLIC EDUCATION FUNDING: CHAPTER 11

4.1 **Intended for general operational and maintenance expenditures, Chapter 11 is planned and executed as part of the regular budget system.** Before school operation grants (PAP 2.1) were introduced in 2000, Chapter 11 was the only source of funding for school operational expenditures. Chapter 11 and PAP 2.1 resources are not mutually exclusive, as Chapter 11 could potentially be used to complement PAP 2.1 by covering some operational expenses not covered by PAP 2.1 funds. Chapter 11 accounted in 2003 for almost 30% of non-salary operational expenditures in sample provinces, and yet little analysis has been done on how the system operates in practice at the sub-national level.

4.2 **The analysis of Chapter 11 fund flows and use is important in itself, but also more importantly because of the comparison with PAP 2.1,** which allows drawing important policy lessons about the most efficient and equitable way of channeling resources. This section describes the processes and outcomes of Chapter 11. First, it describes the rules and regulations governing how these resources are budgeted, how this budget is executed, how resources are allocated and used, as well as the control and monitoring mechanisms that are supposed to be in place to guarantee the well-functioning of the system. Second, it examines how the Chapter 11 budget is actually disbursed, allocated and used, and identifies the challenges in terms of improving efficiency.

### CHAPTER 11 GUIDELINES

4.3 **From planning to auditing, Chapter 11 is implemented following a highly centralized process.** The PEO's Chapter 11 budget is planned, executed, and audited through a process in which the MEF, the NT, and the PTs play central and controlling roles. The Minister of MOEYS, who is called the Original Manager (*anabak deum kse*), and provincial governors, who are called Delegated Managers (*anabak pa-te set*), act on behalf of the Minister of MOEYS, and are in charge of budget execution at the provincial level. They have limited power to manage the annual Chapter 11 budget approved by the National Assembly.

4.4 **The budgeting process starts with aggregate national revenue projections in May/June.** Once revenue availability has been determined, budget allocation ceilings are established for different sectors and investment activities. These ceilings are largely incremental, but small adjustments are made to take into account high priority policies. The ceilings are usually prepared by the MEF and they are approved by the Council of Ministers (COM). By late July, after being informed about budget ceilings, the MOEYS and PEOs separately prepare their own budgets with detailed breakdowns of expenses by chapters, sub-chapters and line items.<sup>28</sup> The proposed budgets should be ready by the middle of August, when they are sent to the MEF's Budget Department (BD) for negotiation, which is usually carried out in September/October.

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<sup>28</sup> See the breakdown of Chapter 11 in Annex 4.

**Table 4.1: Stages in Budget Planning and Execution Cycles for Chapter 11**

<i>Month</i>	<i>Activities</i>
<i>May/June</i>	Revenue projection based on GDP growth projections are prepared by MEF and approved by COM.
<i>End of July</i>	Budget allocation ceiling determination for different sectors prepared by MEF, approved by COM, and sent to line ministries.
<i>Middle of August</i>	MOEYS submits budget proposal with references to their various provincial and district offices
<i>September/October</i>	Budget negotiation between MOEYS and the BD takes place, followed by informal budget negotiation between individual PEOs and the BD.
<i>End of December</i>	The National Assembly approves draft budget after it being approved by the COM.
<i>February</i>	MEF sends credit transfer letter for the year to PEOs allowing them to spend funds. Subsequently, monthly or quarterly spending programs are sent from MEF to PEOs indicating how the budget should be spent for a particular month or quarter; PEOs can ask to spend differently from the program.
<i>June</i>	Proposals for additional budget can be made by PEOs through POEF and the Governor to the BD if needed.
<i>End of December</i>	All payment orders/mandates and spending clearances have to be submitted to POEF, marking the closing of the current year spending.
<i>Early of the following year</i>	Audit teams possibly from the MEF, MOEYS (internal audits) or the National Audit Authority (NAA) might conduct audits at the PEO.

*Note:* The above table is prepared using the information from interviews with PEOs and various relevant regulations such as sub-decrees, Prakas, instructions, etc. The cycle also applies to Chapter 10 and Chapter 31.

**4.5 MOEYS and each PEO need to negotiate their budget with the BD as a way to compete for resources with other line ministries and offices.** The negotiation is an intense and detailed process in which representatives from the MOEYS and all PEOs are invited to attend. In practice, however, PEO representatives have very little say during the negotiation, leaving the Minister of MOEYS, or his representatives, negotiating with the BD on the total budget envelope (i.e., central plus provincial). This face-to-face negotiation should result in an agreement on the total budget and, possibly, also the central ministry's budget and its breakdown.

**4.6 Each PEO goes through another negotiation on its budget proposals with the BD.** This latter negotiation is described by various PEO top officials as relatively informal. This negotiation focuses on both the aggregate PEO budget amount and its breakdown. The results of the informal negotiation vary depending on the negotiation skills of each PEO.<sup>29</sup> After the completion of the negotiation process, a draft budget is decided both on aggregate amount and its breakdown. The draft budget is then submitted for approval by the COM and the NA by the last week of December. The final budget is presented to line agencies soon after the approval.

**4.7 After the budget is approved, the PEOs are informed by MEF some time in February about their approved budgets.** The approved budget is broken down in chapters, sub-chapters, and line items. PEOs have limited authority to alter the composition

<sup>29</sup> The Khmer term used by the respondent was "*Che Rot Kar*" which usually refers to the activities, efforts, or skills to get things done through bureaucracies. The term usually implies the existence of informal payments, patronage line (*khse*) and other behind-the-scenes activities.

of the inputs during the budget execution period. Modifications within chapters have to be approved by the MEF and those between chapters by the Office of the Prime Minister.

**4.8 In addition to the approved budget, the PEO needs the monthly or quarterly “spending program” from the MEF in order to request authorization to spend.** The monthly or quarterly spending program stipulates how much the PEO can spend on, say, Chapter 11.01.01.02 (maintenance) for a particular month or quarter. The PEO, however, can choose to spend differently from the monthly or quarterly spending program by negotiating with the Provincial Office of Economy and Finance (POEF).

**4.9 Chapter 11 funds can be spent using either direct transfer or the cash advance system, which are subject to different procedures and controls.** The direct transfer payment approach is intended for high value purchases, whereas cash advances are for small purchases. In order to use direct transfer payments, the PEO needs to ask for approval from various entities before spending, whereas for cash payments the PEO can withdraw a certain amount of money as a spending advance for small and urgent purchases. With some limitations, spending agencies such as PEOs can decide how much of each of Chapter 11’s sub-chapters and line items, e.g., repair and maintenance, office stationery, etc. should be spent through direct transfers or cash advance. According to the law, however, cash advances cannot exceed 30% of the total annual Chapter 11 budget.

**Table 4.2: Summary of the two spending modalities of Chapter 11**

	<b>Direct Payment</b>	<b>Cash Advance</b>
(i)	≥ 70% of total Chapter 11	≤ 30% of total Chapter 11
(ii)	For purchases of ≥ or ≤ R500,000 in values	For purchases of ≤ R500,000 in values
(iii)	Needs to go through four phases: (1) spending commitment approval, (2) procurement, (3) delivery and payment mandate approval, and (4) payment.	A beginning of the year request shall be made and can be used subsequently in the year.
(iv)	Pre-audit	Post-audit – approval on spending clearance from POEF and the Governor is needed.
(v)	PEO does not have much power, as compared to POEF, Governor’s Office, PEAC/PU and PT	PEO have considerable decision making on spending

**4.10 Direct transfer payments require four steps: a spending commitment request, procurement, delivery and payment mandate approval, and payment.** The spending process starts with sections within the PEO or DEO making purchase requests to the head of the PEO. If approved, the finance section decides whether to use direct payments or petty cash payments, depending on the degree of urgency, size of the purchase, and cash availability. According to the MEF (1996b), purchases of goods or services using Chapter 11 with a value higher than R500, 000 need to be made through the direct payment process.

The PEO can also choose to use direct transfers for purchases of less than R500, 000. This process is summarized in Figure 4.3 (see Appendix 5 for details on each stage).

**Figure 4.1: Direct payment process**

Activities		Process	
(i)	Spending commitment approval	PEO	→ POEF → The Governor
(ii)	Procurement	PEAC/PU working under the Governor	
(iii)	Good/service deliveries	Suppliers	→ PEO with inspection from the delivery committee
	Payment mandate approval	PEO	→ POEF → The Governor
(iv)	Payment to suppliers	PT	→ Suppliers

**4.11 The cash advance system is intended for small and urgent purchases and is subject to a different approval process.** Cash advances are for small and urgent expenses, mission fees, and certain staff remuneration (RGC, 1995c). Although the MEF (1996b) sets the maximum value of purchases that can be made through cash advances at R500, 000, in practice the maximum amount varies by province and year depending on instructions from the POEF.<sup>30</sup> For each budget year, the cash is supposed to be fully withdrawn in no more than eight disbursements. In order to withdraw cash from the PT, the PEO prepares at the beginning of each year a table called “Detailed Table on Cash Advance Spending” to request cash spending approval from the Governor through the POEF. The table indicates how much cash it plans to spend for different Chapter 11 sub-chapters and line-items. Once approved, the cash withdrawal approval letter can be referred to for subsequent cash withdrawals from the PT for the whole year, although the actual withdrawals depend on cash availability at the PT. PEOs prefer cash advances to direct payments since, among other things, it is subject to a less rigorous set of procedures and controls, and goods and services can be purchased at lower prices than using the direct payment procurement process.

**4.12 The PEO needs to clear cash advances within one month after receiving the cash advance.** The PEO prepares spending reports and submits them for clearance to the POEF and the Governor’s office within one month after the cash payment is made (RGC, 1995c). The clearance is mandatory before the next cash withdrawal can be made. However, there is flexibility in that the PEO can ask for some of the next disbursement as long as it has already cleared some of the last disbursement. The level of detail of cash spending reports varies by province depending on the POEF’s requirements.<sup>31</sup>

**4.13 The allocation of Chapter 11 resources to DEOs and schools is left at the complete discretion of the PEOs.** In contrast with PAP 2.1, there are no rules specifying the extent and amount of Chapter 11 resources that the PEO should transfer to DEOs and schools. The PEOs decide if, what, and how much they want to transfer to DEOs and schools.

<sup>30</sup> Based on interviews with PEO officers, the maximum amounts are R500, 000, R250, 000 and even R1 000, 000.

<sup>31</sup> Some sample provinces have quite detailed reports with all receipts attached while others only have the aggregate amount of spending by sub-chapters and line items with a summary list of purchases attached.

## Monitoring and control mechanisms

4.14 **Audit teams from the MEF, MOEYS, and/or the NAA are supposed to conduct audits on PEOs annually.** The audit teams can be composed of three or four people, spending on average five days at the PEO office. An audit report is then issued.

4.15 **The POEF and PT have considerable power in requesting documents from PEOs.** The PEO is required to submit certain documents and follow certain procedures when requesting approval for spending commitments or payment mandates. These requirements may vary by province, depending on instructions from the POEF and PT. Document submission requirements for petty cash withdrawal and spending clearance are much simpler than those for direct payments.

4.16 **There is no accounting records maintained at the line ministries or at the other branches of MEF.** The Cambodian financial accounting system is centralized in the NT and its provincial branches. There is no accounting manual detailing policies, procedures, or rules except for several decrees or sub-decrees that govern expenditure managements (IFAPER, 2003). There are no accounting records at any of the sample PEOs, although there are spending and cash flow summary reports prepared either at the requests of the POEF, PT or audit teams from the MEF, or for internal budget tracking purposes.

4.17 **For the purposes of audits and controls, there are supposed to be record keeping standards at the PEO level.** For each budget year, the PEO is supposed to keep in its archives supporting documents for Chapter 11 spending, including payment mandates, spending commitment requests and approvals, various bidding and procurement documents, and the description of what has been bought with each mandate, along with supporting purchase receipts. Records of spending transactions made through direct transfers are usually better kept than those through petty cash. Some PEOs keep detailed documentation of petty cash spending, with all relevant receipts attached, whereas other PEOs only keep summaries of petty cash spending amounts by sub-chapter and line-items.

4.18 **There are no standardized procedures for inventory management, but there are some cases of good practices.** None of the PEO officials interviewed were able to identify any regulations on inventory management (inventory registry, stock-count, valuation, and maintenance) at spending agencies. However, they refer to certain instructions or common practices which they follow to manage their inventories. In particular, for inventory management purposes, staff in the finance section of the PEO is appointed to track down incoming and outgoing materials. Only some high value items (e.g., land, buildings, and equipment) are considered as inventory and are therefore recorded in the inventory book.<sup>32</sup> The inventory book registers the asset stock at year-end. PEOs and DEOs keep their own inventory books. At year-end, various inspection teams from the MEF, MOEYS and/or NAA might conduct audits that cover inventory management. The inspection is supposed to check inventory records of both PEOs and DEOs in order to verify actually existing fixed assets. The annual audit teams are expected to assess the usability of assets of the PEO and DEO, although there are no clear rules on asset reevaluation or disposals.

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<sup>32</sup> For small items such as stationery and gasoline, a Material Tracking Card is used to record inflows and outflows.

## CHAPTER 11 –BUDGET EXECUTION, ALLOCATIONS, AND SPENDING

4.19 **Contrary to PAP 2.1, Chapter 11 funds are spent at the provincial level, so misuse of funds has to be examined at the PEO level.** Chapter 11 funds can be spent in ways that differ from the use for which these funds were requested. However, as for PAP 2.1, this study is interested in the type of fund misuse that has efficiency implications, that is the diversion of Chapter 11 funds for uses that lie outside the education system (i.e., within PEO leakage). As it will be argued later, poor record keeping, inventory management, and audits/inspections serve to facilitate leakage, and also prevent any reliable quantitative measurement of it.

4.20 **Leakage of funds can also occur between the center and the PEO in the form of facilitation fees.** Informal and non-transparent budget negotiations between the MEF and PEOs, a high degree of discretionary power of the POEF, information asymmetries of PEOs vis-à-vis POEF, and a weak procurement system serve to enable the capture of funds at the MEF, POEF, and PT through the payment of facilitation fees. As with PAP 2.1, this type of leakage is not “recorded”, so the present study only documents the extent to which facilitation fees are paid in each case, rather than their amount, using qualitative evidence.

### Budget Execution

4.21 **Chapter 11 accounts for a sizable share of education resources at the national and provincial levels.** Table 4.4 shows that for 2003 Chapter 11 represented about 7% of the total budget allocated to PEOs, and about 30% of the non-wage recurrent budget, which includes Chapter 11, PAP and Chapter 31, and 46% of total PAP. Overall, Chapter 11 is somewhat smaller than PAP 2.1, although in some provinces the reverse is true.

**Table 4.3: Chapter 11 executed budget as compared to other budget lines (billion CR)**

	2002					2003				
	Amount	% Total Budget	% Non-salary	% PAP	% PAP 2.1	Amount	% Total Budget	% Non-salary	% PAP	% PAP 2.1
Bantey Meanchey Kampong Cham Kampong Chhnang Kampot Kratie Prey Veng Sihanoukville	0.82	7.9	23.4	32.3	75.9	0.92	7.8	26.9	39.3	84.4
	1.26	4.8	22.0	29.2	59.7	1.23	4.4	20.6	26.8	48.2
	0.64	8.1	26.8	39.3	95.5	0.58	7.0	23.1	32.0	80.6
	0.75	6.7	24.8	34.1	73.5	1.02	8.5	31.5	47.2	95.3
	0.64	10.9	28.8	42.4	152.4	0.53	9.2	35.2	58.5	120.5
	2.01	10.9	37.6	64.9	125.6	1.42	6.8	30.3	46.9	89.3
	0.36	9.8	23.0	30.7	156.5	0.38	11.5	39.5	70.1	165.2
<b>Total</b>	<b>0.93</b>	<b>7.8</b>	<b>26.6</b>	<b>39.0</b>	<b>93.0</b>	<b>0.87</b>	<b>6.8</b>	<b>29.6</b>	<b>45.8</b>	<b>79.1</b>

4.22 **Chapter 11 was subject to a budget execution gap of 12% in 2003.** The Chapter 11 budget execution gap is the ratio of Chapter 11 disbursements to PEOs to Chapter 11 budget allocations to PEOs. Table 4.4 indicates that around 88% of the 2003 Chapter 11 budget was disbursed, which represented an improvement from the previous years. The gap is also greater than that for PAP 2.1, although Chapter 11 funds that are not disbursed at the end of the year cannot be carried over to the next year. There are significant

variations across provinces, particularly in 2002, when Kampong Cham and Kampong Chhnang experienced particularly low disbursement rates.

**Table 4.4: Chapter 11 Budget Execution Gap (%)**

<b>Provinces</b>	<b>2002</b>	<b>2003</b>
Bantey Meanchey	93.5	97.5
Kampong Cham	65.2	78.1
Kampong Chhnang	73.5	90.5
Kampot	82.1	91.7
Kratie	85.1	82.0
Prey Veng	97.0	87.0
Sihanoukville	82.0	91.0
<b>Total</b>	<b>82.5</b>	<b>88.0</b>

4.23 **Based on field interviews, the gap is due, in part, to cash management constraints and to the rigidities imposed by the inability to make compositional changes to the Chapter 11 budget unless approved by the MEF,** a process that takes a lot of time and effort by PEOs. As a result of the latter, PEOs are discouraged from requesting any amendments to the budget.

4.24 **Most Chapter 11 funds are spent in the last quarter of the year.** Table 4.5 indicates that over 60% of the budget is spent in the last quarter of the year. This pattern occurs as the result of the PEOs rushing to spend their budget before the year-end. However, it is important to note that cash advances are not reflected in real time as they are only accounted for as executed during the acquittals process, which occurs in December.

**Table 4.5: Chapter 11 spending in 3<sup>rd</sup> and 4<sup>th</sup> Quarters**

<b>Provinces</b>	<b>2002</b>		<b>2003</b>	
	<b>3<sup>rd</sup> Qtr</b>	<b>4<sup>th</sup> Qtr</b>	<b>3<sup>rd</sup> Qtr</b>	<b>4<sup>th</sup> Qtr</b>
Bantey Meanchey	20.0	76.4	17.1	70.7
Kampong Cham	21.2	52.0	43.9	45.1
Kampong Chhnang	23.1	50.1	13.9	71.0
Kampot	20.0	52.7	45.0	49.9
Kratie	16.3	51.7	5.2	76.8
Prey Veng	24.1	72.3	13.4	74.5
Sihanoukville	17.1	33.9	27.0	36.3
<b>Total</b>	<b>21.3</b>	<b>61.1</b>	<b>23.8</b>	<b>62.7</b>

### **Spending modalities and composition**

4.25 **In most cases, less than 30% (the maximum allowed) of Chapter 11 funds are spent as petty cash, although there is significant variation across provinces.** Table 4.6 shows that for all provinces and years, the share of petty cash payments is less than 30 percent, except in Kampong Cham in 2002 and Sihanoukville in both 2002 and 2003. In contrast, in Kampot less than 5% of Chapter 11 is spent through petty cash. Based on interviews, PEOs prefer to spend the money through petty cash as much as they can. Yet,

for various reasons, especially cash constraints at the PT, PEOs are not able to reach the 30% share.

**Table 4.6: Cash advances (amount in billions and share in Chapter 11)**

Province	2002		2003	
	Amount	%	Amount	%
Bantey Meanchey	0.17	28.8	0.17	30.2
Kampong Cham	0.22	37.4	0.14	28.2
Kampong Chhnang	0.10	21.2	0.05	13.0
Kampot	0.02	4.7	0.03	4.1
Kratie	0.12	22.8	0.07	19.6
Prey Veng	0.15	9.7	0.13	15.0
Sihanoukville	0.10	36.2	0.08	31.5
<i>Total</i>	<b>0.12</b>	<b>23.0</b>	<b>0.09</b>	<b>20.2</b>

*Note:* The percentages presented are petty cash compared with total Chapter 11, excluding examination fees, (as the 30% ceiling excludes these as well).

**4.26 The entire Chapter 11 budget is spent at the provincial level with no cash transferred to either DEOs or schools.** All spending using direct transfer payments is done at the PEO level after going through a complicated approval process. After the purchases have been made, the PEO can allocate the purchased items to PEO offices, DEOs, or schools. No petty cash ever reaches DEOs or schools as the PEO is responsible for spending and determining transfers, if any, to DEOs and/or schools.<sup>33</sup>

**4.27 Composition of Chapter 11 spending by sub-chapter.** In order to get a better understanding of the composition of Chapter 11 at the provincial level, a number of sub-chapters and their line items are examined in more detail: these include Ch11.01.01 (Administration of non-furniture facilities, including maintenance, water and electricity), Ch11.01.02 (Equipment and movable assets), Ch11.01.04 (Office stationery and supplies), Ch11.01.07 (Vehicle costs and maintenance), Ch11.01.14 (Sectoral goods and services, including exam books, textbooks, sports equipment), and Ch11.02 (Domestic and international fees for missions). All together, these sub-chapters represent more than 90% of the total Chapter 11 budget. The remaining 10% is spent on various expenses including telephone costs, reception, etc.

**4.28 Examination fees are by far the largest sub-chapter spending category of Chapter 11, followed by administration of non-furniture facilities, and mission fees.** Table 4.7 indicates that Ch11.01.14 represents the largest sub-chapter spending share of Chapter 11. Over 95% of Ch11.01.14 is accounted for by examination fees provided to each province in July and August every year to conduct national lower and upper secondary examinations. These are used to pay teachers to supervise and grade tests. PEO officers indicate that other basic materials needed for examinations, such as exam writing papers are transferred in-kind directly from MOEYS.

<sup>33</sup> In-kind transfers to DEOs and schools will be examined in the next subsection.

**Table 4.7: Composition of Chapter 11 spending by sub-chapter**

Sub-Chapter 11	2002		2003	
	(a)	(b)	(a)	(b)
<b>11.01.01</b> (Administration of non-furniture)	17.6	23.6	16.9	26.6
<b>11.01.02</b> (Equipment and movable assets)	10.0	18.2	6.8	10.9
<b>11.01.04</b> (Office stationery and supplies)	10.4	14.3	8.3	12.7
<b>11.01.07</b> (Vehicle costs and maintenance)	9.4	12.0	9.5	16.5
<b>11.01.14</b> (Sectoral goods and exam fees)	32.1	3.4	40.6	4.2
<b>11.02</b> (Mission fees)	13.4	17.3	12.5	20.9
<b>Others</b> (Telephone, reception, public events...)	7.1	11.2	5.4	8.2

*Note:* (a) represents the share of each sub-Chapter 11 in the total Chapter 11; (b) represents the share of each sub-Chapter 11 in the total Chapter 11 excluding annual examination fees.

4.29 **Composition of Chapter 11 spending by line item.** Table 4.8 indicates common purchases within each sub-chapter. More than 40% of Ch11.01.01 money is spent on PEO building construction or repairs and more than 25% on electricity.<sup>34</sup> Electricity spending covers the PEO's own consumption but also that of various other in-town schools or education offices. Water represents a very small share. In Ch11.01.02, office electrical equipment (mainly computers, copiers, and their accessories) accounted for 45% and 55% of the total in 2002 and 2003, respectively, followed by office furniture such as desks, tables, chairs, etc. In Ch11.01.04, spending is accounted for by a variety of small office stationery items, particularly A4 paper (25% and 35% in 2002 and 2003, respectively) and printer/copier toners. In Ch11.01.07, petroleum including gasoline and diesel accounted for over 75% of the total. In Ch11.02, accommodation and food represent more than half of the budget, followed by mission fees.

<sup>34</sup> The electricity unit price (per kilowatt) varies significantly across provinces, ranging from R760/kw in Sihanoukville to R1,800/kw in Bantey Meanchey.

**Table 4.8: Composition of Chapter 11 spending by line item**

Sub-chapters	Common purchases	2002	2003
11.01.01	PEO building and compound construction/repairs	42.9	51.1
	Other building repairs (DEO, schools)	17.4	0.0
	Office equipment repairs	9.3	10.7
	Electricity	24.7	30.3
11.01.02	Office electrical equipments (computers, copiers)	45.0	54.4
	Office non-electrical furniture (desks, chairs)	26.1	32.8
	Other electrical equipments (motorbikes)	11.5	0.0
11.01.04	A4 paper	25.8	35.8
	Printer/copier toners	18.9	23.6
11.01.07	Gasoline	49.9	53.2
	Diesels	17.7	23.8
	Vehicle maintenances	13.3	11.3
11.01.14	Lower/upper secondary school examination	95.7	95.9
	Sport materials and related events	4.3	4.1
11.02	Transportation	5.6	5.5
	Mission fees	33.4	39.6
	Accommodation and foods	60.9	53.1

*Note:* The percentage presented is the average of all sample provinces.

4.30 **There is a common pattern across provinces and years as to the types of purchases for which petty cash is used.** Table 4.9, shows that petty cash has been mainly used for mission expenses. As mentioned earlier, the petty cash is used to give staff advances for their mission spending, with the rest being cleared via direct payments. The next item is office stationery, where petty cash is used to buy various small office supplies. Finally, petty cash is used for small urgent repairs.

**Table 4.9: Petty cash spent for each sub-chapter as % of total petty cash**

Province	2002			2003		
	11.01.01	11.01.04	11.02	11.01.01	11.01.04	11.02
Bantey Meanchey	29.3	11.6	5.5	n/a	n/a	n/a
Kampong Cham	2.1	0.3	61.5	4.2	0.9	81.1
Kampong Chhnang	0.4	0.0	66.8	16.6	0.0	0.0
Kampot	0.0	0.0	87.7	0.0	14.5	85.5
Kratie	0.4	39.5	22.9	24.2	43.9	18.1
Prey Veng	8.6	59.3	0.4	21.9	16.2	23.9
Sihanoukville	2.0	18.4	34.7	2.5	0.0	43.1
Average	<b>6.1</b>	<b>18.4</b>	<b>39.9</b>	<b>11.6</b>	<b>12.6</b>	<b>42.0</b>

### Transfers from the PEO to DEOs and schools

4.31 **The allocation of Chapter 11 resources to DEOs and schools is entirely at the discretion of the PEO, and since all funds are spent at the provincial level there is only room for in-kind transfers.**

**4.32 The analysis of transfers to DEOs and schools is complicated by the lack of knowledge and records on Chapter 11 at the DEO and school levels.** Only the head and accountant of 4 out of 21 sample DEOs and 5% of the school directors reported to have ever heard of Chapter 11. This made it very challenging to collect information from DEOs and schools on cash and in-kind transfers of Chapter 11 resources. In order to get this information, the research team first identified the different types of transfers, particularly in kind, made under Chapter 11 and those made by other sources of education finance, such as PAP. For example, it was consistently reported by all PEOs that safe boxes and textbooks are financed through PAP. With this information, the team excluded these two items from the list of Chapter 11 in-kind transfers.

**4.33 DEOs only receive certain Chapter 11 in-kind transfers from PEOs, which are small in value and erratic in their occurrence.** Table 4.10 reports each transferred item, the number of DEOs that received it (there are 21 DEOs in the sample), and the average value (and standard deviation) of the transfers.<sup>35</sup> Ch11.01.02 items are most commonly transferred and the most valuable, although 70% of DEOs receiving these items did not know their value in either 2002 or 2003. Within Ch11.01.02, computers have the highest value, but only 3 DEOs reported receiving them, while furniture is the most commonly transferred item. Stationery is the most commonly transferred item in sub-chapter 11.01.04, with 19 and 15 DEOs receiving stationary in 2002 and 2003, respectively, but only 50% and 60% of those, respectively, had enough information to estimate the total value of the stationary transferred. Gasoline seems the second most commonly transferred item, with over 90% of recipients able to estimate the value of the transfer in 2003. Although there is no information on the value of Ch11.01.14 transfers, field interviews suggest they are small. Finally, 17 and 10 of the DEOs reported to have received mission allowances from the PEO with an average value of R2.3 million and R1.7 million in 2002 and 2003, respectively.<sup>36</sup>

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<sup>35</sup> As the records at the DEO on in-kind transfers are poor, the information presented here must be interpreted with caution.

<sup>36</sup> There is a possibility that the reported figures may incorrectly include mission allowances paid out of the PAP budget.

**Table 4.10: Chapter 11 in-kind transfers to DEOs, number of DEOs receiving transfers, and average values in million riel**

Sub-Chapters	Items	2002		2003	
		No.	Ave. value (St. dev.)	No.	Ave. value (St. dev.)
11.01.01	Electricity	1	0.9(n/a)	1	0.9 (n/a)
	Computer set including printer	3	4.2(2.6)	3	3.8(d/n)
	Computer accessories (UPS, printer, monitor, keyboards...)	3	2.8(d/n)	3	4.4(d/n)
	Furniture (desks and chairs)	12	0.6(0.3)	3	1.5(0.0)
11.01.02	Motorbikes	3	4.8(d/n)	1	d/n
	Typewriter	3	d/n	0	n/a
	Electrical supplies (batteries, microphone, speakers, walkie talkies)	2	d/n	3	d/n
	Blackboard	2	d/n	3	d/n
11.01.04	Office stationery (A4 papers, printer/copier toners, notebooks, and other office small supplies)	19	1.3(1.0)	15	1.6(1.4)
	Gas	17	1.2(2.2)	13	1.9(3.9)
11.01.07	Diesels	6	0.1(0.1)	6	0.1(0.1)
	Lubricant	6	0.1(0.1)	3	0.1(0.1)
	Balls	1	d/n	2	d/n
11.01.14	Sport wear	0	d/n	1	d/n
	Journal, wallpapers	8	d/n	4	d/n
11.02	Mission fees	17	2.3(2.9)	5	1.7(0.9)

*Note:* The average values are calculated from those DEOs that received the transfer and know its value. During the survey, DEOs also reported having received safe boxes (65% and 50% in 2002 and 2003, respectively), and text books (95% in 2002 and 30% in 2003). The two items are not included in the table as it is understood that these items are financed through PAP.

**4.34 In-kind transfers of Chapter 11 resources to schools are meager in quantity and value.** Not more than 25% of the schools in both years reported to have received any teaching materials from the PEO or the DEO (Table 4.11). The majority of schools (75% and 70% in 2002 and 2003, respectively) reported to have received core textbooks. However, it is not accounted for in the table because textbooks are not financed from Chapter 11, but from PAP 7.1. Among schools who claimed to have received teaching materials, more than 80% in 2002 and almost 30% in 2003 did not know the value of those transfers. These percentages are smaller in the case of the other transfers, but they still indicate a generalized lack of knowledge and records on Chapter 11 in-kind transfers.

**Table 4.11: Chapter 11 in-kind transfers, % of schools receiving them, and average values**

Items of transfers	2002	2003
Teaching materials besides text books		
% of schools having received the transfers	25.0	22.0
Out of these, % of those who do not know the value of the transfers	82.0	28.7
Average value (st. dev.) in million riel based on available information	0.04	0.62 (072)
Sport materials (balls, nets, robes...)		
% of schools having received the transfers	36.5	28.5
Out of these, % of those who do not know the value of the transfers	28.0	18.0
Average value (st. dev.) in million riel based on available information	0.04 (0.02)	0.06 (0.05)
Others (teacher journal, inventory books...)		
% of schools having received the transfers	16.5	13.0
Out of these, % of those who do not know the value of the transfers	6.0	6.0
Average value (st. dev.) in million riel based on available information	0.05 (0.11)	0.17 (0.43)

## Efficiency challenges

### Budget preparation and execution

4.35 **The current budget preparation and execution processes are too centralized and rigid, leaving the PEO with little flexibility to adapt spending to needs, creating inefficiencies in the use of Chapter 11 resources.** The budget preparation process is highly centralized, with the MEF, POEF and PT tightly controlling the process. The MEF has the authority to approve not only the budget amount but also its composition for each PEO, leaving very little margin for PEOs to modify it later. All the PEO officers interviewed expressed the opinion that the budget is prepared and executed with high rigidity, giving PEOs little room to adjust spending to needs. They also report the real constraint is not being able to make adjustments within chapters. As a solution, some of the officers admit to have spent differently from the approved budget without permission from the POEF or MEF, yet prepared spending reports in a way that shows compliance. This is a weak aspect of reporting that also occurred with PAP spending. This rigidity alters the spending pattern of PEOs relative to the optimal pattern given by their needs, thus generating inefficiency.

4.36 **The multiplicity of bureaucratic requirements creates long delays in the budget execution process and opportunities for capture.** From the survey, approval of spending commitment requires more than seven signatures if the commitments need to go through only the POEF and the Governor's Office, and more than ten if MEF's approval is also needed. The time involved in this process varies a great deal, ranging from one or two days to more than 15 weeks. The approval of payment mandates, on the other hand, might take more than ten signatures to go through the POEF, the Governor's Office and the PT, taking more or less the same time as the approval of spending commitments. According to the PEO officers interviewed, besides possible intentional acts of gate-keeping by various officers involved, the delay might also arise from a long absence of the people whose

approval is needed, too many requests from various line provincial offices at the same time, etc. This multiplicity of bureaucratic procedures also increases the opportunities for capture in the form of facilitation fees.

**4.37 The informal and non-transparent nature of the budget negotiations between the MEF and the PEOs introduce discretion into the system and create opportunities for capture.** Starting with the budget preparation phase, the Department of the Budget of the MEF exercises significant influence on the amount and composition of each PEO's budget. According to interviews with PEO officers, the informal budget negotiation process between individual PEOs and the BD might be subject to various non-transparent deals. It is not clear what technical factors are taken into consideration at the negotiation. The same gate-keeping activities take place when it comes to the phase where the PEOs make requests to the MEF for additional budget or modifications within chapters.

**4.38 The high degree of discretionary power the POEFs exercise during budget execution also opens the door for capture.** When the budget is executed, all the spending requests and clearances, and payment mandates have to go through the POEF. Regulations (1995c) state that POEF controllers have three days to inform agencies if they agree or disagree with the submitted spending requests, with the failure to do so implying an agreement. The sub-decree, however, adds that the POEF controllers have the right to ask for additional information and/or confirmation from spending agencies, if needed. Based on interviews, the latter is exactly what occurs, with the POEF having a high degree of discretion to delay and reject proposals, with the Governor marginalized. From the interviews, failure to comply with document submission and other formalities is commonly used as an excuse for gate-keeping. In the current system, a good relationship with, particularly, the POEF, plays a very critical role in getting spending requests and payment mandates approved. Based on interviews, good relationships are commonly established through the payment of "facilitation fees" to the POEF, PT, and the Governor's Office. According to PEO officers interviewed, having a bad relationship with those entities would make the approval process very difficult, particularly when PEOs need to meet certain urgent needs or when the end of the fiscal year is approaching and they need to spend the remaining budget balance.

**4.39 Suppliers also face gate-keeping, particularly at the payment stage.** At the payment stage, suppliers deal directly with the PT. Based on interviews with PEO officers, facilitation fees are frequently required from suppliers so as to facilitate the payment process.

## **Procurement**

**4.40 Based on interviews, public procurement is another problematic phase in the spending process.** The fiduciary risk associated with the public procurement process is still high due to weaknesses in the existing regulatory framework, low capacity, high informality and corruption (WB, 2004b). Based on interviews, the same issues arise in public procurements at the PEO level. At the provincial level, a large proportion of procurements use either Direct Contracting (DCO) or Domestic Canvassing (DC). Using DC or DCO requires at least three possible suppliers. In practice, however, compliance to this requirement is questionable. Often, less than three suppliers are taken into consideration when negotiating contract prices. Although shortage of bidding suppliers

might be the explanation for that in some provinces, non-transparency in the process might be another possibility.

4.41 **Bidding prices are often much higher than market prices, indicating the inefficiency of the bidding process.** Taking A4 paper as a typical item, Table 4.12 compares the procurement prices, petty cash prices, and market prices in 2004. A4 paper is used because it is the most standardized purchase among all the sample PEOs.<sup>37</sup> The price per ream of A4 paper is at least 25%, and at most almost 60% higher, than the retail market price.

**Table 4.12: Comparison of unit price (riel/ ream) of A4 papers in 2004**

Provinces	Procurement Price	Petty Cash Price	Market Price	Procurement versus Market (%)
Bantey Meanchey	10,550	n/a	10,000	105.5
Kampong Cham	13,800	10,500	10,000	138.0
Kampong Chhnang	12,500	10,000	10,000	125.0
Kampot	15,900	10,300	10,000	159.0
Kratie	13,000	10,500	10,000	130.0
Prey Veng	13,200	10,200	10,000	132.0
Sihanoukville	13,000	10,100	10,000	130.0
<i>Average</i>	<b>13,567</b>	<b>10,265</b>	<b>10,000</b>	<b>131.3</b>

*Note:* The procurement and petty cash price of the A4 paper as shown were randomly selected from a pool of receipts issued with relation to budget year 2004. Market price of the A4 paper as shown is the maximum price obtained by randomly asking vendors in each province and in Phnom Penh. It should be noted that the A4 market price is usually lower than R10, 000 per ream. However, to make it less complicated, one price of R10, 000 is applied.

4.42 **Inefficiencies arising from payment delays and leakage explain why bidding prices are higher than market prices.** According to officials of the Procurement Unit of the Pre-qualification, Evaluation and Award Committee (PEAC/PU), the contract price is higher than the market price simply because the purchases are made on credit, and payments take a long time (months and even more than a year). In this setting, two other factors are important (i) the exchange rate differential when purchasing foreign goods and (ii) the interest paid on delayed payments. In addition, and according to PEO officials and anecdotal evidence, suppliers have to incur some informal costs in the form of facilitation fees given to various officers mainly at the procurement and payment stages, bringing the bidding prices even higher.

4.43 **The prices of goods purchased through the bidding process are much higher than those purchased using petty cash payments and PAP money.** Table 3.24 shows that the unit price of purchases made through petty cash is only slightly higher (about 3 percent) than the market price. This small difference is explained by the absence, in the case of petty cash payment, of the additional formal and informal costs incurred when using the bidding process. Purchases through petty cash may also allow the PEO to take advantage of bulk discounts. Furthermore, the unit price of goods purchased using PAP

<sup>37</sup> This analysis only aims to provide an illustrative example of the efficiency of the current procurement process.

money is only a bit higher (around 5 percent) than the market price.<sup>38</sup> The reasons for that are the same as for purchases through petty cash. However, as noted previously, in the case of PAP there may be some additional costs arising from credit purchases, although the time it takes for payments to be made is shorter than in the case of public procurements.

**4.44 Field evidence suggests that the less standardized the purchased goods or services are, the higher the procurement price relative to the market price.** In addition to A4 paper, electricity and water, the most standardized goods purchased by the PEOs is gasoline. Purchases of electricity and water are made from suppliers that act as monopolies. The price of purchases is observed to be the same as that paid by households. However, there is a huge variation in prices across provinces due to supply availability and other factors not related to procurement. Based on PEO records, it is noted that the price paid for gasoline is more or less the same as the market price. However, observation and qualitative evidence strongly suggest that the less standardized the purchased items are, the more likely it is that the procurement price is significantly higher than the market price. Examples of such purchases include construction projects for PEOs or DEOs, tailored-made office furniture and office equipment, and vehicle maintenance and repairs.

**4.45 More research is needed on the procurement aspects of the current financial management system.** The qualitative evidence provided by this study and others makes it clear that, by any standard, the procurement process is very weak and has extremely high fiduciary risks. Given the relevance of this in the context of the public finance reform program, it is therefore suggested that a more detailed quantitative study be carried out.

### **Control and monitoring mechanisms**

**4.46 The PEO accountants interviewed usually have little knowledge of any regulations relevant to the execution of the budget.** It was observed that most of the PEO's chief accountants or finance section heads had little knowledge about the financial management regulations regarding the execution of the budget, and therefore rely on the POEF and PT. This creates an information failure that can potentially lead to the POEF and PT unlawfully exploiting their informational advantage to their benefit. It may also lead to deliberate "mistakes" in the execution of the budget on the part of PEOs.

**4.47 There are no accounting records at the PEOs, and the quality of record keeping varies significantly across PEOs. This opens the door for fund misuse at the PEO level.** As mentioned earlier, the only records that PEOs have are spending and cash flow summary reports prepared either at the requests of the POEF, the PT, or audit teams from the MEF, or for internal budget tracking purposes. The quality of these records very much depends on the initiatives and diligence of each PEO's finance section. As a result, some PEOs prepare very neat and detailed spending and cash reports, while these reports are quite messy or almost non-existent in some other PEOs. One difficulty arising from such practices is that most financial documents are prepared in a way that only the accounting chief and one or two of his/her assistants can understand and use them.

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<sup>38</sup> The 5% figure is based on random checking, on spending reports sent from schools, and interviews conducted with PEO officers who are responsible for checking the reports.

4.48 **The problem of poor accounting and record keeping is compounded by a poor archival system at the PEO. This makes audits and inspections difficult, and of questionable quality.** Supporting documents for each budget year are bound together and kept at the PEO building. There is little or no access control to those documents, making them vulnerable to theft, loss, fire, etc.

4.49 **Inventory, including asset registration in some PEOs and DEOs is very poor.** In some of the sample provinces, although an inventory book is kept by the PEO, it is often not well maintained. For example, some inventory books were kept only up to 2002. At the DEO level, the inventory registry is even poorer, with some DEOs keeping virtually no inventory record, and some others only recording fixed assets, without indicating their values, as well as when and from where they were received.

4.50 **The practice of stock-counting and/or checking as part of inventory management are poor, constituting the biggest flaw in the current inventory management system.** Even in provinces where the inventory registry is relative good, little attention is paid to stock-counting to verify if what is recorded in the book actually exists, a task that is supposed to be conducted by annual audit teams. Furthermore, in some provinces, there have been failures to conduct inspections of the quality of the goods delivered by suppliers to the PEO.

4.51 **The current poor inventory management practices create a lot of room for misappropriation of public assets for personal use.** Based on qualitative data, control of the use of public assets in PEOs and DEOs is usually poor. Assets, such as vehicles and computers, are sometimes used for personal use after working hours. It was also noted, however, that in order to meet urgent needs personal assets are sometimes used for official purposes (e.g., motorbikes to visit schools).

4.52 **The poor management of inventory leads to higher maintenance costs.** For the years covered in this survey, it is observed that an increasing share of the budget for movable assets is spent on office electronic equipment, such as generators, computers and photocopiers. Table 3.24 shows that purchases of such items accounted for 45% and 54% of total spending on Ch11.01.02 in 2002 and 2003, respectively. Despite the high value of these purchases, there is still no staff appointed to inspect the quality of the items delivered, as well as to control the proper use of these items, which leads to frequent breakdowns and thus increasing maintenance costs. This problem is aggravated at the DEO level, where maintenance of these items is even worse.

4.53 **The picture of Chapter 11 that emerges from the surveys is a system that on all counts—timing and predictability of resources, results-oriented focus, and fiduciary risk—performs less well as compared to the PAP.** This finding will have major implications on the Public Financial Management Reform Program (PFMRP) in terms of the mainstreaming of a reformed PAP approach. What is also clear is that the RGC has made some progress, though in some areas only marginally, in improving public financial management by introducing PAP. PAP thus serves to provide lessons on how to reform the Cambodian budget system in the context of the RGC's PFMRP.

## 5. EQUITY OF PAP 2.1 FUNDING AND IMPACT ON SCHOOL ENROLLMENT

### EQUITY OF PAP 2.1 FUNDING

5.1 **In addition to efficiency in the flow and use of resources, this study investigates the equity in the allocation and timing of PAP 2.1 funds to schools.** PAP 2.1 is presented in the Education Strategic Plan (ESP) and the Education Sector Support Program (ESSP) as a poverty-indexed program. Although there is nothing explicit in the funding formula that makes PAP 2.1 pro-poor, the actual distribution of PAP 2.1 funds per pupil may be pro-poor. In addition, although there is no regulation, PEOs are expected to give priority to schools most in need when allocating cash receipts from PTs. In this case, poorer schools would be expected to get PAP 2.1 funds earlier and, most importantly, get more of these funds around the start of the school year.

5.2 **The analysis found that the allocation of PAP 2.1 funds is found to be pro-poor, while the timing of disbursements tends to be more wealth neutral.** The combination of a funding formula that benefits small schools disproportionately, and small schools being poorer, results in pro-poor distribution of per-pupil PAP 2.1 funding. However, the evidence does not support the claim that PEOs prioritize cash receipts from PTs to the neediest schools. Except for fiscal year 2001, the timing of disbursements to poor schools is no different than that to wealthier schools.

5.3 **The equity of PAP 2.1 funding depends on the relationship between school size and school wealth, and the relationship between school wealth and the funding gap.** There are two sources of variation across schools in the amount of PAP funds received per pupil: (1) variation due to the fixed per-school component, which benefits small schools disproportionately; and (2) variation in the funding gap, i.e., the difference between what the school is entitled to according to the capitation formula and what the school actually receives. Thus while the PAP 2.1 funding formula is not explicitly pro-poor, its allocation across schools may result in a non equity-neutral distribution as a result of the combined effect of (1) and (2). Thus to assess the equity of PAP 2.1 allocations, we first examine the relationship between per-pupil PAP 2.1 funds and school size (i.e., school enrollment) for each fiscal year. Second, the correlation between school wealth and school size is examined. Third, the relationship between funding gap and school wealth is analyzed. Finally, the relationship between per-pupil PAP 2.1 funds and school wealth, which results from the combination of (1), (2) and (3), is examined.

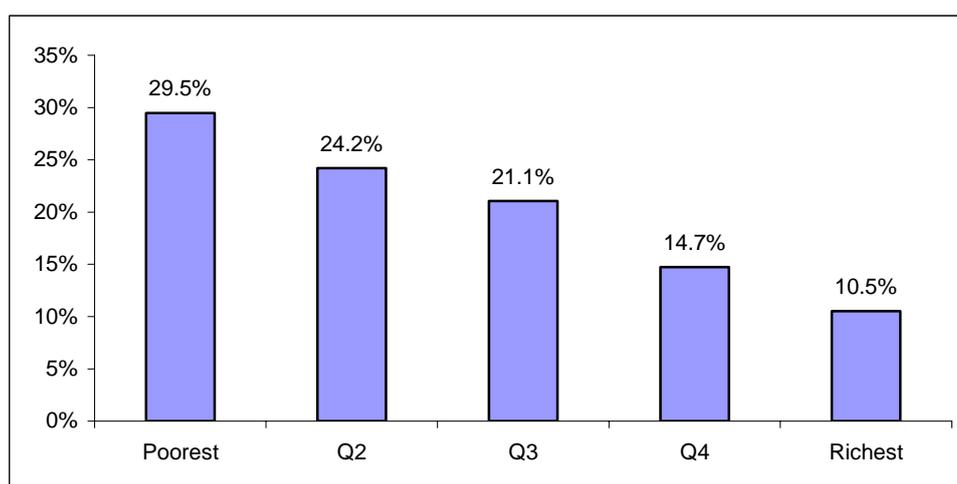
5.4 **School wealth is measured from the demand side by an averaged asset-based household wealth index.** Following Jishnu et al. (2004), school wealth is measured from the demand side by looking at the average wealth of the households whose children attend each school. Household wealth, in turn, is measured by an asset-based index. The latter is constructed using the information, provided by 4<sup>th</sup> graders taking the Khmer and math tests, on household ownership of nine assets (not related to agriculture) plus information on housing material and source of electricity.<sup>39</sup> The school average of the household wealth index is further transformed into five equally-sized quintiles.<sup>40</sup>

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<sup>39</sup> Only the information provided by 4<sup>th</sup> graders is considered rather than the combination of 4<sup>th</sup> and 6<sup>th</sup> graders, since there is a significant screening of students along wealth lines between the 4<sup>th</sup> and the 6<sup>th</sup> grade and some schools do not offer all grades. However, the results using 6<sup>th</sup> grade results are basically the same.

**5.5 The selection of provinces for the pilot phase of PAP 2.1 was pro-poor.** In 1999, MOEYS decided that PAP was to be introduced on a pilot basis in 10 provinces (out of a total of 24). These provinces were selected on the basis of the repetition rates in grade 1 and 2. Figure 5.1 shows that the higher the wealth level of the school, the lower the chances of the school being part of the pilot phase. Most schools in the pilot provinces are in the poorest 2 quintiles (54%), while about 11% of pilot schools belong to the wealthiest group.

**Figure 5.1. Wealth distribution of pilot schools**



**5.6 The allocation of PAP 2.1 funds in fiscal year 2000 was wealth-neutral.** From Table 3.5, the funding formula for 2000 only included a per-pupil component. Thus, although smaller schools tend to be poorer, the formula is equity neutral and there is no relationship between school wealth and the funding gap, so the resulting per-pupil PAP 2.1 allocation in 2000 was neutral from an equity standpoint (Table 5.1).

**Table 5.1. Equity of 2000 PAP 2.1 funding**

	Enrollment (***)	Funding gap	PAP 2.1 pp
Poorest	356	-1.2%	8404
Q2	458	-0.8%	8450
Q3	547	-6.4%	7968
Q4	594	-4.9%	8093
Richest	934	-4.2%	8156
Correlation between PAP 2.1 pp and enrollment = -0.18			

Note: \*\*\* Joint differences across wealth quintiles are significant at the 1 percent level; \*\* Significant at the 5 percent level.

**5.7 The allocation of PAP 2.1 funds in fiscal year 2001 was pro-poor.** As a result of the introduction of the fixed per-school component in the PAP 2.1 funding formula, smaller schools received significantly higher 2001 PAP 2.1 funds per pupil than larger schools. Large schools tend to have significantly wealthier students than smaller schools. Thus, the

<sup>40</sup> Since the household information refers to the time of the survey (May 2004), the benefit incidence analysis of PAP 2.1 allocations for the previous year relies on the assumption that the school wealth ranking does not change over time. Since schools are less likely to change wealth quintiles over time, we choose school wealth quintile as the basic measure of school wealth.

combination of the capitation formula and the positive association between school size and wealth would result in a negative relationship between per-pupil PAP funding and wealth, i.e., a pro-poor distribution of PAP 2.1 funding. Wealthier schools tended to be subject to larger funding gaps, although the only significant difference is between the richest group of schools and the rest. Thus, the progressivity of the funding gap reinforces the pro-poor distribution arising from the formula and the positive association between school size and wealth. The result is an overall pro-poor distribution of 2001 PAP funding, although there are no significant differences between the first three wealth groups.

**Table 5.2. Equity of 2001 PAP 2.1 funding**

	Enrollment (***)	Funding gap (**)	PAP 2.1 pp (***)
Poorest	423	-22.3%	5654
Q2	489	-22.4%	5379
Q3	591	-22.4%	5186
Q4	617	-23.9%	4917
Richest	1003	-27.7%	4365
Correlation between PAP 2.1 pp and enrollment = -0.55 (***)			

Note: \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

**5.8 The allocation of PAP 2.1 funds in fiscal year 2002 was slightly pro-poor.** Smaller schools received significantly higher 2002 PAP 2.1 funds per pupil than larger schools. Large schools tend to have significantly wealthier students than smaller schools. Thus, the combination of the capitation formula and the positive association between school size and wealth would result in a pro-poor distribution of PAP 2.1 funding. There is no significant relationship between funding gap and school wealth, i.e., the funding gap is wealth neutral. The result is a pro-poor distribution of 2002 PAP funding, although the only significant difference is between the richest schools and the rest.

**Table 5.3. Equity of 2002 PAP 2.1 funding**

	Enrollment (***)	Funding gap	PAP 2.1 pp (***)
Poorest	444	-4.4%	7063
Q2	526	-6.1%	6852
Q3	600	-4.7%	6703
Q4	609	-7.3%	6573
Richest	994	-4.7%	6170
Correlation between PAP 2.1 pp and enrollment = -0.60 (***)			

Note: \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

**5.9 The allocation of PAP 2.1 funds in fiscal year 2003, up to May 2004, was wealth neutral.** Fiscal year 2003 had not ended by the time of the survey, so this analysis captures the benefit incidence of PAP 2.1 distributions only up to May 2004. Smaller schools, which are significantly poorer, received significantly higher 2003 PAP 2.1 funds per pupil than larger schools, which would result into a pro-poor distribution of PAP 2.1 funding. However, richer schools have significantly smaller funding gaps than poorer schools, although the only significant difference is between the richest group and the rest. In fact, the pro-rich feature of the funding gap completely offsets the progressive distribution arising from the formula and the positive association between school size and wealth. Thus, overall, the distribution of 2003 PAP funding up to May 2004 was wealth neutral.

**Table 5.4. Equity of 2003 PAP 2.1 funding**

	Enrollment (***)	Funding gap (**)	PAP 2.1 pp
Poorest	469	-18.9%	5935
Q2	505	-15.8%	6225
Q3	594	-12.2%	6294
Q4	585	-12.7%	6231
Richest	939	-7.8%	6191
Correlation between PAP 2.1 pp and enrollment = -0.32 (***)			

Note: \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

5.10 **In terms of timing of disbursements, 2000 PAP 2.1 was wealth neutral.** There are no differences in the cumulative percentage of 2000 PAP 2.1 funds received by December 2000 between poor and wealthy schools. The same lack of pattern appears in terms of the percentage of total 2000 PAP 2.1 funds received around the start of the school year.<sup>41</sup>

**Table 5.5. Equity in the timing of 2000 PAP 2.1 disbursements**

	By Dec. 2000	Start of school
Poorest	29.2%	18.2%
Q2	22.3%	13.0%
Q3	22.5%	13.6%
Q4	26.3%	14.7%
Richest	28.9%	14.5%

Note: The first column measures the cumulative percentage of funds received by December of the first year, while the second column represents the percentage of total funds received around the start of the school year (September-October). \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

5.11 **The timing of 2001 PAP 2.1 disbursements was pro-poor.** Poorer schools received a larger percentage of 2001 PAP 2.1 funds by December of 2001 than wealthier schools, although the only significant difference is between the poorest two groups of schools and the richest three. More importantly, the poorer the school the larger the share of funds received around the start of the school year, with the poorest group of schools getting 23 percent and the richest only getting 3 percent.

**Table 5.6. Equity in the timing of 2001 PAP 2.1 disbursements**

	By Dec. 2001 (**)	Start of school (***)
Poorest	55.0%	22.8%
Q2	53.9%	10.9%
Q3	50.2%	8.1%
Q4	48.7%	8.3%
Richest	49.9%	3.3%

Note: \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

<sup>41</sup> Since only one school received funds in October 2000, the definition of the start of the school year period is extended to November.

5.12 **The timing of 2002 PAP 2.1 disbursements was slightly pro-poor.** There is no relationship between school wealth and the proportion of 2002 PAP 2.1 funds disbursed by December 2002. In terms of the timing of disbursements around the start of the school year, the only significant difference is between the poorest three groups of schools and the wealthiest two in the 2002-03 school year, and between the wealthiest group and the rest in the 2003-04 school year.

**Table 5.7. Equity in the timing of 2002 PAP 2.1 disbursements**

	By Dec. 2002	Start of school 02-03	Start of school 03-04
Poorest	44.2%	10.7%	6.1%
Q2	48.5%	10.2%	5.8%
Q3	49.1%	9.1%	5.5%
Q4	50.2%	6.5%	4.4%
Richest	44.3%	6.3%	0.3%

*Note:* \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level.

5.13 **The timing of 2003 PAP 2.1 disbursements was wealth neutral.** There is no relationship between school wealth and the percentage of funds received by December 2003 or the share of funding received around the start of the 2003-04 school year. This pattern did not change much up to May 2004, as was shown in Table 5.8.

**Table 5.8. Equity in the timing of 2003 PAP 2.1 disbursements**

	By Dec. 2003 (**)	Start of school (***)
Poorest	24.1%	5.4%
Q2	29.0%	6.5%
Q3	33.3%	6.9%
Q4	24.9%	3.2%
Richest	18.9%	4.2%

*Note:* \*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level. Since only a few had received 2003 funds by October 2003, the definition of the start of school year period is extended to November.

## IMPACT OF PAP 2 ON SCHOOL ENROLLMENT

5.14 **The education funding system is ultimately designed to improve student outcomes and, therefore, it should ultimately be held accountable for that.** A smooth flow of resources and an appropriate use of resources at the school level are all necessary intermediate outcomes. However, school participation, school progress and student learning are the outcomes the system is ultimately designed to improve and, therefore, they are the outcomes it should ultimately be held accountable for. While there have been significant improvements in the basic education sector over the past five years, particularly in terms of primary net enrollment rates, the question is whether and how much PAP has contributed to this improvement.

**5.15 The impact of PAP 2 on primary school enrollment rates is the focus of analysis.** Improved primary school enrollment rates constitute one of the key impact indicators in determining the success of PAP 2.1.<sup>42</sup> The evaluation of the impact of PAP 2.1 on enrollment requires comparing school enrollment in the program with enrollment levels that would have prevailed in the absence of the program. To estimate the counterfactual, we exploit the fact that PAP was phased-in over time. In particular, PAP was introduced in the school year 2000-01 in 10 provinces (early provinces), and extended to the other provinces in 2001-02 (late provinces).<sup>43</sup> The early provinces were selected on the basis of the repetition rates in grade 1 and 2.

**5.16 The PETS survey was partly designed to evaluate the impact of the PAP on student outcomes.** The following 7 provinces were drawn to be part of the survey: Kampong Chhnang, Kampot, Prey Veng, Kratie (early provinces); and Banteay Meanchey, Kampong Cham, Sihanoukville (late provinces).<sup>44</sup> Despite the effort to survey similar schools, the two groups of schools in the sample differ in some important aspects. Specifically, schools in late provinces tend to be larger than schools in the early provinces.<sup>45</sup>

**5.17 The impact of PAP 2 is measured by comparing the change in (grade 1) enrollment from 2000-01 to 2001-02 in early provinces and late provinces.** While the program may have had long-lasting effects, it is expected that most of its impact is concentrated in the first year of the program. Also, while the program may have affected primary school enrollment more generally, the largest effect is expected to be in grade 1. The population of 6-year-olds living in the vicinity of schools in early provinces were exposed to the program in both 2000-01 and 2001-02, while those living in the neighborhood of schools in late provinces started benefiting from the program in 2001-02. Thus, if the program had an impact we should observe a greater increase in grade 1 enrollment between 2000-01 and 2001-02 in late provinces relative to early provinces.<sup>46</sup>

**5.18 PAP 2 increased grade 1 enrollment by 15 percent.** Between 2000-01 and 2001-02, grade 1 enrollment increased by 25 more students in schools located in late provinces than in those located in early provinces. Thus PAP 2 increased grade 1 enrollment by 25 students, on average, per school between 2000-01 and 2001-02. This represents a 15 percent increase from the 2000-01 enrollment level in schools located in late provinces.

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<sup>42</sup> The analysis of the impact of PAP on student learning will be the subject of a separate study. Student learning is measured by test scores in math and Khmer language of 4<sup>th</sup> and 6<sup>th</sup> graders.

<sup>43</sup> Kampong Chhnang, Kampong Speu, Kampot, Kandal, Kep, Koh Kong, Kratie, Prey Veng, Ratanakkiri, Svay Reang (pilot provinces); and Banteay Meanchey, Battambang, Kampong Cham, Kampong Thom, Mondulakiri, Oudart Meanchey, Pailin, Phnom Penh, Preah Vihear, Pursat, Siem Reap, Sihanoukville, Stung Treng, Takeo (non-pilot provinces)..

<sup>44</sup> See the Annex for details on the sampling procedure.

<sup>45</sup> In order for the results not to be driven by a handful of extreme observations, we restrict attention to “normal” schools, i.e. those that are not in the tails of the distribution.

<sup>46</sup> The advantage of using this difference-in-differences approach is that we can control for all time-varying changes that affect the two regions in a similar fashion.

**Table 5.9. Estimate of PAP 2 impact on grade 1 enrollment**

	Year		
	Average grade 1 enrollment, school year 2001/02	Average grade 1 enrollment, school year 2000/01	01/02- 00/01 difference
Schools in late provinces	183.4 <sup>***</sup> (9.4)	163.7 <sup>***</sup> (8.9)	19.7 (4.5)
Schools in early provinces	132.0 <sup>***</sup> (6.8)	137.4 <sup>***</sup> (7.9)	-5.4 (4.5)
Difference between late and early schools	51.4 <sup>***</sup> (11.4)	26.3 <sup>**</sup> (11.9)	<b>25.1<sup>***</sup></b> (8.7)

Note: \*\* Significant at the 5 percent level. \*\*\* Significant at the 1 percent level. Numbers in parentheses are clustered (by school) standard errors.

5.19 **This result is robust to various robustness checks.** The interpretation of the above estimate as the impact of PAP 2 during the first year of the program on grade 1 enrollment relies on the assumption that if both groups of provinces had been exposed to the program in 2000 the change in enrollment from 2000 to 2001 would have been the same in pilot and non-pilot provinces. To test this assumption, we look at the change in enrollment from 2001-02 to 2002-03. Since all schools were exposed to the program at this point we should not observe any statistically significant difference between pilot and non-pilot provinces.<sup>47</sup> The results show that both groups of provinces experienced a similar drop in grade 1 enrollment between those years.

5.20 **The impact of PAP 2 on grade 1 enrollment was greater in rural areas.** Program impact estimates were computed for urban and rural schools separately. From 2000-01 to 2001-02, grade 1 enrollment increased by an average of 25 more students in rural schools located in late provinces than in rural schools located in late provinces, while there was no significant difference between urban schools. To the extent that households residing in rural areas are poorer, the results suggest that the PAP has important distributional effects.

<sup>47</sup> It is possible, however, that PAP 2 resources received in one year also have an effect on subsequent years. For that reason, we would ideally perform this experiment using enrollment data for two consecutive years prior to the introduction of the pilot, e.g., 1998-99 and 1999-00. However, enrollment data for prior years was not collected.

**Table 5.10. Estimate of PAP 2 impact on grade 1 enrollment by geographical location**

<i>Sample</i>	Specification		
	1 All	2 Urban	3 Rural
School year 2000/01	137.4 <sup>***</sup> (7.9)	170.1 <sup>***</sup> (21.0)	130.0 <sup>***</sup> (7.9)
School year 2001/02	132.0 <sup>***</sup> (6.8)	156.8 <sup>***</sup> (18.4)	125.0 <sup>***</sup> (7.1)
Schools in late provinces	26.4 <sup>**</sup> (11.9)	55.5 <sup>**</sup> (25.0)	9.9 (12.7)
School in late provinces*school year 2001/02	<b>25.1<sup>***</sup></b> (8.7)	<b>18.5</b> (15.5)	<b>29.0<sup>***</sup></b> (10.2)
R <sup>2</sup>	0.83	0.88	0.82
Number of schools	164	39	119
Number of observations	299	75	213

5.21 **The increase in school enrollment was not accompanied with a proportional increase in the number of teachers, which may have affected education quality negatively.** The model was re-estimated using the student-teacher ratio as the outcome variable (Table 5.11). From 2000-01 to 2001-02, schools in early provinces experienced, on average, an increase of 18 students per teacher compared to schools in late provinces, or a 20 percent increase in the student-teacher ratio. This raises concerns about the education quality implication of the introduction of PAP, at least in the short term.

**Table 5.11. Estimate of PAP 2 impact on the pupil-teacher ratio**

Specification	1
School year 2000/01	112.7 <sup>***</sup> (9.1)
School year 2001/02	106.1 <sup>***</sup> (9.0)
Schools in late provinces	-21.1 (12.0)
Schools in late provinces *school year 2001/02	18.1 <sup>**</sup> (8.2)
R <sup>2</sup>	0.65
Number of schools	163
Number of observations	298

## 6. CONCLUSION

6.1 **The introduction of the Priority Action Program (PAP) in education represented a major change in the use of resources and sector strategy. As such, a comprehensive assessment is needed** to analyze the impact of PAP 2.1 in terms of providing resources to schools in a timely and predictable manner, making sure those resources are used as intended, and improving education outcomes.

6.2 **With the launch of the RGC’s Public Financial Management Reform Program (PFMRP) in December 2004, the challenge of making the budget credible has taken on a new momentum.** According to the PFMRP, delivering reliable and predictable budget resources to budget managers can only be done if spending procedures are streamlined. Among other things, this would entail streamlining core budget transaction processes combined with progressive deconcentration of authority, and more responsibility, to line ministries.

6.3 **The mainstreaming of PAP, as the cornerstone of a medium-term financial deconcentration program, is part of PFMRP’s action plan** (see PFMRP Consolidated Action Plan Activity 6). However, at the same time, the MEF recognizes that improvements in the design of PAP are necessary before it is mainstreamed. Moreover, this study posits that improvements in the regular budget system are also necessary, and should take place simultaneously with improvements in PAP. In fact, mainstreaming the existing PAP system will not yield the positive results unless both PAP and the regular budget system’s control and monitoring procedures are tightened considerably. It is hoped that this study will be useful in shedding some light on the lessons of the PAP experience—both productive and counterproductive—that can be useful in the next steps of the budget reform program.

### LESSONS AND RECOMMENDATIONS FROM THE PAP EXPERIENCE

6.4 **A key result of the survey is that PAP 2.1 funds do tend to reach schools. This is mainly due to the formula-based allocation method and the program budget structure.** Controlling for cash disbursements (from the National Treasury to PEOs), and given caveats about data quality, the survey suggests that leakage is relatively low. The analysis suggests that PAP funds reach schools for two related reasons: the formula-based allocation method and the program budget structure. The value of a formula-based allocation rule is that resources are unambiguously earmarked for schools according to a simple and clear funding formula—thereby eliminating discretion at the provincial and district levels. The value of the PAP budget structure, which introduces “management for results” principles, focuses on delivering quality and efficiency in primary education. The detailed sub-programs focus more precisely on delivering specific results.

#### **Recommendations:**

- *Further develop the program budget model especially as regards the deconcentration of authority to line ministries by issuing a policy paper and piloting the new arrangements in “ready” line ministries.* The PAP experience offers a wealth of information about what has worked and what has not in Cambodia’s experiment with program budgeting. Some priority ministries, like MOEYS and MOH, are ready to deepen the experiment, while others are eager to use program budgeting to shift to a management results focus. MEF would

do well to further develop the proposal for increased financial deconcentration by granting line ministries (through their deconcentrated financial controllers) greater flexibility to determine resource usage within program limits and greater commitment and payment authorization powers. In addition, and given clear sectoral policy objectives, it would be necessary to assist line ministries to align expenditure programs with agency management and budget structures and to define and monitor the outputs and outcomes that programs are expected to achieve, while using performance indicators for regular reporting through the budget process. Whenever appropriate, resources should be allocated to front line providers according to simple and clear funding formulas. A careful refinement and expansion of PAP's approach to program budgeting, based on "readiness criteria," is an important next step. Responsible agencies: MEF with line ministry input.

**6.5 Monitoring and control mechanisms for PAP 2.1 need to be improved if leakage is to be prevented, and implementation is to be improved more generally.** Including PAP expenditure in the fiscal information produced by MEF is critically important for improving overall budget coverage. PAP spending should be formally reported to the National Treasury on a quarterly basis for inclusion in regular fiscal reports, to strengthen the reporting system.

**6.6 Though overall the internal reporting procedures and documents are well-designed, the critical weakness is in the incentive structure for compliance.** Internal audits are uncommon and inspections seem to be of low quality. There is no official mechanism for reporting system abuse. The hypothesis that stakeholder oversight through the School Support Committees contributes to low corruption is not borne out by the data. Still, there seems to be some validity to the argument that the existing reporting system, as imperfect as it is, has contributed to improving the culture of compliance at the school, district, and provincial levels in the MOEYS. One of the lessons of the study, however, is that incentives for accurate reporting and record maintenance must be in place. This will require that enforcement actions be taken when cases of non-compliance are detected.

**6.7 Though the internal PAP reporting system is fairly well designed, the lack of incentives to comply with record keeping, reporting, and inspection activities has frustrated the government's attempt to reduce fiduciary risk.** It is understandable why civil servants do not comply with the current budget reporting system. Currently, there are no apparent penalties for not complying, no reports of disciplinary sanctions, and with no external oversight. Civil servants also receive extremely low wages and lack meritocratic promotion. Until an overall system of robust financial accountability is in place it will be very difficult to reduce or eliminate corruption.

**Recommendations:**

- *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. Responsible agency: MEF.*
- *Strengthen financial reporting requirements, including the incentives for compliance, by improving internal audit capacity and utilization of information and communications technology by developing an integrated financial management system (IFMIS), and develop, articulate, disseminate, implement, and enforce*

*sanctions for malfeasance or non-compliance.* Significant improvements should result when the MEF adopts the new chart of accounts and budget classification structure in 2007. Improving internal audits and implementing an IFMIS are already planned as part of the PFMRP. Key to improving performance here will be strengthening financial management capacity. Responsible agency: MEF.

**6.8 While PAP programs share some common features, PAP 2.1 has some peculiarities that make it less subject to capture opportunities. This may have shifted corruption over to Chapter 11.** PAP 2.1 is formula-based, well known by ultimate recipients, perceived to be subject to heavy controls, and funds are spent at the facility level, all of which tend to reduce the opportunities for capture. All other PAP programs for primary education do not have a simple and clearly defined allocation rule and are less well known. In addition, school records on PAP 7.1 (textbooks), PAP 2.2 (remedial classes), PAP 1.2 (deployment), and PAP1.3 (remote area teaching) are very poor or non-existent. At the very least, getting more information out on these programs and requiring schools to keep records on them should reduce the opportunities for capture. More worrisome is the concern that with a tightening of control and monitoring procedures around PAP, corruption has shifted over to Chapter 11, where, in relative terms, it may be much easier to be corrupt. The case of petty cash use in Chapter 11, where a significant share is reportedly used for work-related travel, is one such example. Lack of adequate asset control is another. PAP may have reduced corruption for PAP funds, but shifted the locus of activity to Chapter 11. Tightening Chapter 11 procedures, however, might change the incentives extant in the PAP system. Anticipating the changes of one system on the other will be important for the next phase of the PFM reform.

**6.9 Due to the low quality of record keeping at the school level, this analysis can say little with confidence about the extent of PAP fund misuse at the school level. However, 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.** Parents/communities are misinformed or uninformed about the resources allocated to schools and how these resources are to be used. Also parents do not have any formal complaint mechanism to voice their concerns. This analysis also found that the SSCs are not fulfilling their potential role as parent-responsive “watchdogs.” Under these circumstances, strengthening the accountability of school management to parents is a key priority. In particular, measures to empower parents by providing them with the necessary information to monitor school performance and participate in the management of schools would reduce the opportunities for fund misuse and would, more generally, improve service delivery in education.

**Recommendations:**

- *Use the PETS results to develop a “power of information” strategy for engaging with parents, through the SSCs and otherwise, on a pilot basis for selected schools.* This would entail developing user-friendly budget presentation materials on budget allocations, policies, and PAP procedures, as well as other information on school performance, and making them available to the SSC, parents, and commune councils. Mechanisms should be put in place to increase representation and participation of parents in school management. Pre- and post-assessments of both school operations and parental and SSC engagement would be useful to gauge the impact of the information campaign. Consideration should also be given to involving members of the National

Assembly and Senate in the pilot in order to strengthen linkages between constituents and elected officials. Responsible entities: MEF/MOEYS/National Assembly

**6.10 Delayed and unpredictable disbursements appear to have a highly deleterious impact on schools' operational efficiency.** The PAP 2.1 disbursements have failed to meet the financial needs of the schools at the beginning of the school year. The data indicate that quite often the first disbursement reached schools after the school year had already started, and it did so at levels well below what schools needed at that time of the year. The PAP 2.1 funds also failed to provide a smooth flow of cash after the start of the school year. Finally, PAP 2.1 disbursements were found to be very unpredictable from one year to the next. To deal with cash constraint resulting from inadequate and unpredictable PAP 2.1 fund flows, schools either resort to credit purchases or postpone activities and purchases. These problems are compounded by the lack of flexibility of school operational budgets to meet needs at each point in time.

**Recommendations:**

- *While cash management problems persist at the central level, it is important to formalize the arrangement, through appropriate regulations, that PAP resources be disbursed by PEOs on a priority basis to programs where the timing of disbursements is critical, such as PAP 2.1, PAP 3.1 and PAP 12, when needed the most (during the school year).*
- *Provide greater discretion to schools for deciding how to spend PAP 2.1 (once improved control is in place). The experience of the Education Quality Improvement Project (EQIP) shows that allowing schools and communities to have a greater role in spending decisions can have a significant payoff in terms of efficiency as well as effectiveness of education funding, once the right internal and external control arrangements are in place.*

**6.11 This analysis also confirms that PAP and Chapter 11 are equally subject to the budget execution problems caused by difficulties with cash management.** While PAP appears to do better in terms of end-period execution rates, this is largely because PAP funds are allowed to be carried over into the following FY. The carry over policy, however, has resulted in confusion by making budget operations more complex and opaque, and thus increasing the scope for abuse and decreasing operational efficiency. Moreover, the practice of continually advancing cash, prior to verification of accounts, is inconsistent with the 1993 Organic Budget Law. In sum, given the difficulties with the special execution arrangements for PAP, and assuming that the PFMRP will yield significant improvements in budget execution and Treasury operations over the next two years, it would be preferable to phase out the special PAP disbursement arrangements in the context of overall PFM reform, including program budgeting, moving to eventual reunification of the two systems. **Recommendations:**

- *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.<sup>48</sup> It would be important to phase out PAP's special disbursement*

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<sup>48</sup> Limited, well-managed flexibility to carry over funds into the next fiscal year could be a useful instrument at a future point in time, given a reformed PFM system.

mechanism only after MEF-wide reforms in cash management, procurement, and program budgeting is far enough along to allow line ministries to benefit from the phase out. Responsible agencies: MEF with MOEYS input.

- *Develop and implement a new budget transaction processes, from release to commitment to payment, in order to streamline transactions by reducing delay and opportunities for gate keeping.* The MEF has already begun to make some headway on the redesign, but further progress is urgently needed. Reducing the number of steps in the approval processes would reduce delays in expenditure operations. Responsible agency: MEF.

**6.12 The funding formula for PAP 2.1 has allowed the system to direct more education funds to schools that need them the most, while accounting for the fixed operational cost of running a school.** As a result of the fixed per school component of PAP 2.1 funding, smaller schools receive a disproportionately greater amount of PAP 2.1 funding per pupil. While the adequacy of the size of this component is not analyzed in this study, the component is intended to take into account the fixed operational cost of running a school. By doing so, it also tends to benefit poorer schools, which are smaller and are most in need of quality school inputs. However, further analysis is needed on the adequacy of the size of the fixed component and the per pupil component.

**6.13 Preliminary results show that PAP 2 was successful in increasing school enrollment, but there are concerns about the impact on school quality.** Using the phasing in feature of PAP implementation, the impact evaluation results show that PAP 2 had a significant effect on grade 1 enrollment, which was concentrated in rural schools. The increase in school enrollment was not accompanied by a proportional increase in the number of teachers, which may have affected education quality negatively. More work needs to be done to determine the effects on school progress and student learning.

**6.14 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, and as such hopes to contribute to the ongoing dialogue on PFM reform and education sector policy by bringing a field-level perspective on issues that are often more informed by top down views.** The MEF has incorporated regular PETS-type analysis into its PFMRP, and the PETS on health is already underway. Building on the lessons of the PETS in education, and tailoring the analysis to the specific circumstances of the health sector, the study promises to be informative and practical. Going forward, greater emphasis could usefully be put on developing capacity to carry out these types of studies “in house.”

**Recommendations:**

- *Hold government 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.* Consideration should also be given to carrying out similar studies in other sectors, but tailoring the tool to the pressing questions faced by those sectors. For example, a PETS-type study on civil servant placement and “migration” would likely be very useful. Introducing a simplified type of PETS would also be useful at the commune/sangkat level.

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## ANNEXES

## ANNEX 1: Detailed breakdown of the twelve PAP activities

PAP	Description	PAP	Description
1	Education teaching services efficiency	7	Instructional materials and textbook development
1	Technical and management supporting program	1	Core text book purchases
2	Teacher deployment program	2	Building capacity in text books supplying
3	Remote areas good teachers supplementary salary	3	Inspection
4	Inspections, workshop and documents		
2	Primary education quality and efficiency	8	Expansion of non-formal education
A		1	Capacity building for information education teachers
1	School operation budget	2	Program, literacy improvement and life caring
2	Remedial teaching budget	3	Program for people going back to schools
3	Inspection/awards for good teachers and schools	4	Inspection
B		9	AIDS awareness in schools
1	Supporting budget for 5-year-old children in Grade-1	A	
		1	Teaching and study materials
3	Secondary education quality and efficiency	2	Additional training for trainers graduated in 2002
1	School operation budget	3	Training and friend-educating program
2	Technical support and inspection	4	Inspection
		B	
4	Technical and vocational education and training quality and efficiency	1	Off school HIV/AIDS awareness program
1	Training centre operation budget	2	Youth counseling groups
2	Addition training for trainers and management staff		
3	Training efficiency and quality assurance	10	AIDS awareness out of schools
4	Vocational training for poverty reduction		
5	Higher education quality and efficiency		
		11	Supplies, capacity strengthening and provincial monitoring
6	Continuous teacher development	A	
1	Teacher training school operation budget	1	Inspection on spending and management of budget
		2	Inspection of PAP implementation at PAP at provincial/district levels
2	Training for primary and secondary school directors	3	Technical staff capacity building
3	Training for Grade 11 teachers teaching sciences	4	BMC operation budget
4	Information training for teacher trainers	B	
5	Training non-teaching staff to be teachers	1	Assessment of impact of program on education quality
6	Inspection	2	Inspection on education sector
		12	Equitable enrolment and scholarship reception

## ANNEX 2: PETS Sample

The sample originally consisted of 220 primary schools randomly drawn from 12 provinces and 34 districts. The sampling procedure involves two main stages. The first stage entails drawing provinces and districts from the 2002-03 school census, while the second stage narrows down the eligible schools to the ones situated in communes where the Cambodian 2003-04 household survey is currently being carried out. The second stage implies both potential benefits and costs. In terms of benefits, it provides important background variables for the schools to be visited. But at the same time it limits the pool (the final pool of schools corresponded to 45% of the total population of primary schools in the country) from which the final schools are drawn from. Some schools from the original sample had to be replaced. School replacement followed the sampling procedure detailed below. In some cases, schools could not be accessed and a replacement could not be found so the final sample consisted of 200 schools.

The first stage of the sampling is based on the 2002-03 school census. Three general criteria governed the choice of procedure in selecting the sample in the first stage. First, the sample would be representative of the population of early provinces (receiving funding from 2000 and onwards) and late provinces (receiving funding from 2001 and onwards) in the country. Second, the sample of provinces chosen would also be representative in terms of the number of schools in general and number of early and late schools in specific. Third, the districts picked within each chosen province would have to balance the aim of being representative in terms of the number of schools in the districts, and at the same time represent a manageable task for the survey team in terms of accessibility. To account for these three considerations, a stratified random sample was chosen. Specifically, each province was weighted according to size (number of schools). Thereafter, 5 early and 7 late provinces were randomly chosen from the population of 24 provinces. Each of the 12 selected provinces (Banteay Meanchey, Battambang, Kampong Cham, Kampong Chhnang, Kampong Speu, Kampong Thom, Kampot, Phnom Penh, Ratanak Kiri, Siem Reap, Svay Rieng, and Takeo) was then allotted a number of schools based on the proportion of schools in the province to the total number of schools in the selected sample of 12 provinces. To make the survey effort is feasible, it was decided that 2 or 3 districts would be picked from each province (the final number depending on the total number of districts in the province). Similar to the draw of provinces, each district was weighted according to size (number of schools). Thereafter, 2 or 3 districts were randomly chosen from the population of districts within each province, yielding a total of 34 districts to be included in the final sample. See Table A2.1 and Table A2.2 below for details.

The second stage of the sampling is based on the Cambodian 2003-04 household surveys (HSES). The HSES sampling frame consists of 900 villages and 15,000 households. The sampling design involved stratification of the country into five geographical regions (Phnom Penh, Plain, Tonle Sap, Coastal, and Plateau and Mountain), dividing up each region into separate urban and rural strata. From each stratum, 4 independent sub-samples of villages were drawn, with the sample being allocated over the strata proportionately to the total number of households in the strata. To broaden the number of eligible schools, the HSES and the census were matched at the commune, rather than the village level. In other words, schools were excluded from the census if they were situated in a commune where the HSES had been carried out. This procedure reduced the number of eligible primary schools from 5,915 to 2,689. To make the sample of urban and rural schools representative of the population of urban and rural villages included in the HSES, the number of schools in each district arrived at in the first stage was weighted into an urban and a rural group. The groups were weighted according to the proportion of urban and rural villages that the HSES ascribed to the specific province which the district belonged to. Finally, schools were randomly drawn from the group of 2,689 schools, with the number of schools allotted to each district being decided in the first stage, while the urban-rural weight followed the HSES. The final draw resulted in a slight overrepresentation of rural schools as compared to the share ascribed by the HSES; see Table A2.3 below for details.

Table A2.1

	Early provinces	Late provinces
Percentage of provinces sampled	42	58
Population percentage of a specific province	42	58

Table A2.2

Early provinces	Number of schools	Number of districts	Late provinces	Number of schools	Number of districts
Kampong Chhnang	19	3	Banteay Meanchey	19	3
Kampong Speu	19	3	Battambang	19	3
Kampot	20	3	Kampong Cham	25	3
Ratanak Kiri	19	3	Kampong Thom	20	3
Svay Rieng	19	2	Phnom Penh	10	2
			Sidereal	20	3
			Takeo	20	3
<b>Total</b>	<b>87</b>	<b>14</b>	<b>Total</b>	<b>133</b>	<b>20</b>
Percentage of early schools to total schools sampled	40		Percentage of late schools to total schools sampled	60	
Population percentage of early schools to total population	39		Population percentage of late schools to total population	61	

Table A2.3

	Planned Number of Urban Schools	Actual Number of Urban Schools	Planned Number of Rural schools	Actual Number of Rural schools	Total (Actual)
<b>Banteay Meanchey</b>	7	7	12	12	19
<b>Battambang</b>	7	6	12	13	19
<b>Kampong Cham</b>	2	0	23	25	25
<b>Kampong Chhnang</b>	4	0	15	19	19
<b>Kampong Speu</b>	3	0	16	19	19
<b>Kampong Thom</b>	6	6	14	14	20
<b>Kampot</b>	3	0	17	20	20
<b>Phnom Penh</b>	8	10	2	0	10
<b>Ratanak Kiri</b>	4	4	6	6	10
<b>Sidereal</b>	7	6	13	14	20
<b>Svay Rieng</b>	2	0	17	19	19
<b>Takeo</b>	3	0	17	20	20
<b>Total</b>	56	39	164	181	220

Table A2.4

	Population	Included schools	Excluded schools
<b>Total number of schools</b>	5915	2689	3226
<b>Number of students on average</b>	457	536	404
<b>Number of teachers on average</b>	8	10	7
<b>Percentage of urban schools</b>	11	15	7
<b>Percentage of rural and remote schools</b>	89	85	93

### ANNEX 3: PAP 2.1 -- Regulatory framework

Only a few sub-decrees, Prakas and notifications have been issued so as to facilitate the implementation of PAP. Besides these regulations there are also several other financial documents including standardized PAP Income Receipt, Spending Receipt, PAP Budget Tracking Book, Inventory Book, Inventory Tracking Form, and sample invoices. The following are the main PAP regulations.

*Prakas No 1180 PRK.MEF.B of the MEF on The Establishment of the Budget Strategy and Enforcement Center (BSEC)* in the four priority ministries including the MOEYS, MH, Ministry of Rural Development (MRD) and Ministry of Agriculture, Forestry and Fishery (MAFF) at both the central and provincial levels. The BSEC is charged with assisting the ministries in preparing and implementing PAP, especially in setting up the Budget Management Center (BMC), the financial management entity, which later on became fully in charge of the budget implementation of PAP. The BSEC was, however, dissolved in July 2002 as it is no longer necessary.

*Circular No. 006 MEF.AYTh of the MEF dated March 2000 on the Implementation of the PAP.* The Circular provides some critical stipulation for PAP implementation, including: (i) the PAP would be piloted in health and education sectors first, (ii) in the case where there is cash shortage, the PAP budget should be prioritized and its amount kept the same, (iii) to avoid all the common rigidities and other budget execution problems, ex-post audit, rather than ex-ante control is to be applied with PAP, (iv) the BMC should play a major role in financial management, and (v) a brief description on PAP post audits.

*Sub-Decree No. 92 ANKR.BK dated September 2001 on Procedures for Prepayment of PAP* [and other budget lines] allowing disbursement of PAP only with reports on detailed spending planning and emphasizing the ex-post audit practice with PAP.

*MEF-MEYS Prakas No. 560 MEF dated September 2002 on the Guidance on Implementation of PAP in MEYS*, setting out in quite detail PAP spending guidance at schools. The Prakas also indicates that any public acquisition using PAP money that has value of more than or equal to R40 million shall be co-approved by the Minister of MEF and needs to go through PEAC/PU if more than or equal R20 million. The BMC will be allowed to make decisions on PAP spending only when the value concerned is less than R10 million. This Prakas is seen to be the first significant piece of regulation to guarantee the transparency, accountability and effectiveness of PAP spending although it is small in scope. This Prakas was followed by Sub-Decree No. 102 ANKR.BK dated October 2002 introducing some more detailed PAP spending guidance in the education sector.

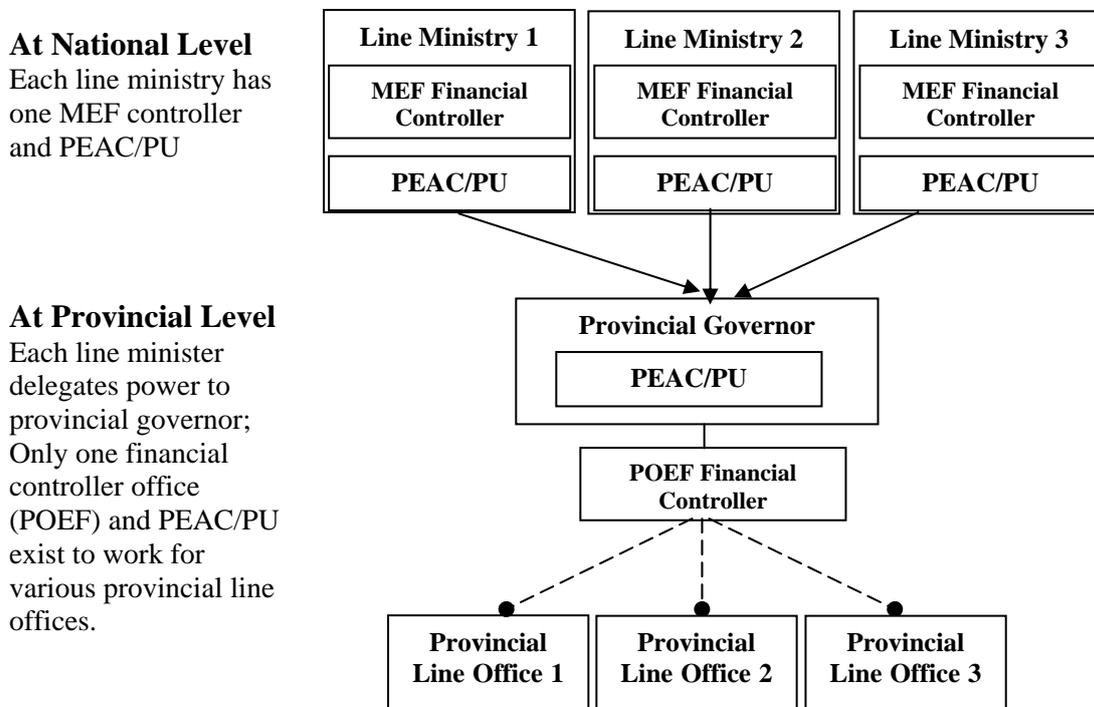
**ANNEX 4: Detailed breakdown of Chapter 11**

<b>Chapter/Sub-Chapter</b>		<b>Description</b>
11		Operation and Maintenance
	01	Administration expenses, supplies and equipment
	01	Administration of non-furniture
	02	Maintenance and repairs
	03	Water
	04	Electricity
	02	Movable assets
	03	Telecommunication
	04	Office stationery and supplies
	05	Text books and materials
	06	Conference and meetings
	07	Vehicle expenses
	01	Vehicle maintenance
	02	Petroleum
	03	Vehicle rental
	08	Reception
	01	International guest reception
	02	Domestic guest reception
	09	Ceremony preparation
	01	National and traditional ceremony preparation
	12	Teacher training
	02	Laboratory equipment and other small technical items
	03	Workshop and meetings
	14	Sectoral goods
	01	Expenses on national examination
	05	Sport events
	06	Youth related works
	02	Mission expenses
	01	
	01	Transportation
	02	Mission fees
	03	Accommodation and foods

## ANNEX 5. Chapter 11: Direct payment process

**Spending Commitment Approval.** According to Sub-decree 81 and 82, in order to spend the approved Chapter 11 budget, the PEO needs approval from the POEF and the Governor, who acts as the delegated manager on behalf of the Minister of MOEYS. Usually, the PEO is required to prepare a set of documents including the description of the proposed purchases and their estimated market prices using a pro-forma invoice or requisition. The proposal will first go to the POEF, which would then check if the spending subject is in compliance with the approved budget and the spending program sent from the MEF, if the cost is reasonable, and if other aspects of the formalities of the proposals are acceptable. The principal initial document is the “commitment visa.” If approved, the commitment is forwarded to the Governor. In practice, the importance of the Governor’s role varies from one province to another; in some cases, the Governor is even bypassed at this stage, whereas in others, the approval of the Governor is necessary.

### Spending authorization at national and provincial levels



*Note:* For certain big volume purchases, involvement of MEF is required.

**Procurement.** Once approved by the Governor, the spending commitment is sent to the Procurement Unit (PU) and then to the Pre-qualification, Evaluation and Award Committee (PEAC). The PEACs/PUs are in charge of public procurement and they are required to be set up for each ministry, province, and municipalities. The PEAC/PU is under the Governor’s Office. According to the RGC (1995a), there are three possible ways a purchase of goods or services can be made through public bidding or other non-public procurement processes: Domestic Canvassing (DC), Direct Contracting (DCO), and Direct Purchase (DP). The method depends on the nature of the purchases and their values. DC and DCO are allowed for small value purchases (less than R20m) and/or with limited numbers of suppliers. For purchases above a certain threshold, spending agencies are required to seek approval from MEF’s Department of Public Procurement (DPP) before entering into such contracts. For those below the threshold, the PEAC/PU is authorized to carry out the procurement process and award contracts

(MEF, 1997). The contract needs to be signed and approved by various parties including the head of PEO, the suppliers, the Governor and the head of PEAC/PU.

**In practice, most procurement for PEOs is made through DC or DCO.** There are different practices in different provinces depending on availability of suppliers and volumes of purchases. From the survey, DC or DCO are the two most popular ways of doing procurement for PEOs. It is noted that repairs and maintenance, utilities, and purchases of immovable properties (computers, photocopiers, furniture, electrical equipment, etc.) are usually purchased using the DC or DCO. Purchases of, for instance, stationary, gas, etc., are usually made through public bidding process. In some provinces, bidding for stationary, for instance, is carried out for all line offices, while in others, bidding is done for individual offices.

**Good/service deliveries and approval of payment orders.** Once awarded, suppliers are required to deliver goods/services in accordance with the terms of the contract. A group of officials, possibly composed of those from the PEAC/PU, the POEF, the Governor's Office, and PEO is expected to conduct inspections of the deliveries to verify contractual requirements. In practice, sometimes verification is not carried out; in those cases, PEO officials conduct internal verifications and have these approved by the head of the PEO. Once the deliveries are approved, the PEO is required to prepare a payment mandate/order. The mandates have to be first approved by the POEF and the Governor, going through the same process as the spending commitment approval request stage.

**Supplier payments.** Once approved, the mandate is forwarded to the PT for processing. Payment depends on cash availability. It should be noted that for record-keeping purposes, Chapter 11 spending is deemed to occur on the date the mandate is approved and accepted by the PT. According to the regulations, spending of Chapter 11 through direct transfer payment to suppliers is made through PTs except for Chapter 11.01.14 (national examination preparation), and Chapter 11.02 (mission and traveling fees) and Chapter 11 cash advances.<sup>49</sup>

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<sup>49</sup> For Chapter 10 (salary), Chapter 31 (social and economic interventions), and Chapter 13 (PAP), PEOs withdraw cash and make payments to intended recipients. These expenditures are submitted for clearance by the POEF, the Governor, and PT.

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