

UNLOCKING CAPACITY AND REVISITING POLITICAL WILL: CAMBODIA'S PUBLIC FINANCIAL MANAGEMENT REFORMS, 2002-2007

Robert Taliercio¹

ABSTRACT

Over the past several years the Royal Government of Cambodia has successfully and consistently been implementing its Public Financial Management Reform Program (PFMRP), which has focused on improving the credibility of the budget while reducing fiduciary risk. This outcome is surprising not only because of the well known difficulties of implementing ambitious PFM reforms in low income, post-conflict countries, but also because most other reform programs in Cambodia have either failed or stalled, including an earlier effort at PFM reform (2001-2004). The paper develops a case study of the PFMRP (using the methodology in Barzelay et al., 2003) and argues that the success of the PFMRP is due to the way in which it was developed. The central hypothesis probed is that the public management processes and techniques that led to the development of the PFMRP are the same ones that explain its successful implementation. These include: a joint government-donor analytical process to define the problem and build consensus, an agreed reform vision and action plan, a pilot civil service reform in the Ministry of Finance to address capacity constraints, and formal coordination mechanisms for government and donors. The paper disputes the dominant hypothesis that the change was related to 'political will,' instead focusing on how public management solved the problem. The conclusion offers lessons on designing reform programs (in terms of public management processes and strategies) that may be applicable to other countries.

¹ The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent.

Acronyms and Abbreviations

CAP	Consolidated Action Plan
CAR	Council of Administrative Reform
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
DP	Development Partner
DPC	Development Partner Committee
DPCS	Development Partner Committee Secretariat
EAP	External Advisory Panel
FMIS	Financial Management Information System
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
IOCC	Institutional, Organizational, and Capacity Development Consultancy
LICUS	Low Income Countries Under Stress
MBPI	Merit Based Pay Initiative
MDTF	Multi-Donor Trust Fund
MEF	Ministry of Economy and Finance
NSDP	National Strategic Development Plan
NPRS	National Poverty Reduction Strategy
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PFMAP	Public Financial Management and Accountability Project
PFMRP	Public Financial Management Reform Program

PFMTWG	Public Financial Management Technical Working Group
PRGO	Poverty Reduction and Growth Operation
RC	Reform Committee
RCS	Reform Committee Secretariat
RGC	Royal Government of Cambodia
TCAP	Technical Cooperation Assistance Program

INTRODUCTION

By all accounts, Cambodia has been a post-conflict country for much of the past 15 years, stretching as far back at 1991, when the Paris Peace Accords proclaimed a truce between the Vietnamese-backed government and the Khmer Rouge. Subsequent attempts to put in place desired political and governmental structures remained furtive in the midst of ongoing politico-military violence, which only subsided definitively in 1997. Many important institutions of governance and public sector management, destroyed by the ultra-radical Khmer Rouge regime, were only just starting to be rebuilt by the turn of the century.

As a post-conflict and a low income country, Cambodia clearly faced profound development challenges in the early 2000s. The conflict, spanning more than a quarter of a century, contributed to weak governance, high levels of corruption, and a fragile political discourse. Yet progress was made implementing so-called first generation reforms (on the concept of generational reforms, see Schneider and Heredia, 2003). These first generation economic reforms included deregulation of prices and markets, privatization of state-owned enterprises, liberalization of trade and investment flows, and management of a floating exchange rate. The impact of these reforms appears to have included a clear movement from an isolated, low-growth, state-managed, and subsistence-oriented economy to a market-based economy open to international flows of capital, goods, and labor. Since the early 1990s Cambodia had enjoyed over a decade of high average economic growth—7.1 percent from 1994-2004—driven largely by construction, tourism and, since the late 1990s, the very rapid emergence of a garment sector. The country also benefitted from the fact that a non-trivial portion of growth over the past decade was due to post-conflict ‘catch up.’ Cambodia’s economic growth also drove moderate poverty reduction: the poverty level was reduced to 35 percent in 2004, down from an estimated 47 percent a decade earlier (World Bank, 2006).

The Royal Government of Cambodia (RGC), beginning to prepare for the July 2003 elections, continued to struggle, however, with defining a successor reform program. New binding constraints had clearly emerged. On the one hand economic growth was likely to slow over the medium term unless the investment climate improved and the agricultural sector revitalized. On the other hand delivery of public services in the priority sectors was seriously hampered by weak public financial management and an impaired civil service. The RGC—and its development partners (DPs)—were increasingly frustrated by the fact that improvements in sectoral policies, such as in health or transportation, continued to be undermined by serious institutional weaknesses, resulting in difficulties translating good intentions into good outcomes for Cambodian citizens. Overall, the RGC continued to be dogged by low levels of capacity, resources, and accountability. The bureaucracy remained largely inefficient and ineffective in meeting the needs of its citizens, and particularly that third of its citizens who lived below the poverty line (World Bank/Asian Development Bank, 2003).

Of particular frustration was the lack of progress in public financial management (PFM), which the RGC and DPs had recognized as the binding constraint on government performance, from running primary schools to maintaining roads, across all sectors. Despite the efforts of a group of DPs to support PFM reform with significant resources under a common umbrella, there was very little progress after two years.

Blame was laid by DPs on factors outside their control: a ‘lack of political will’ and a ‘lack of a functioning civil service’ (IMF, 2004: 5). By 2004 a deep-seated skepticism prevailed. The implications seemed uncontroversial—both political will as well as a functioning civil service were prerequisites for reform—but profoundly disappointing, given the depth of the diagnosis.

Despite these dire antecedents, and clearly against the perceived odds, the Prime Minister launched a new PFM Reform Program (PFMRP) in December 2004. Cognizant both of past failures and present opportunities, the Prime Minister declared a novel approach: “...we even need to reform the way we prepare and implement the reform program (MEF, 2004: 3).” Progress began to be noted in 2005 and 2006, and by 2007 major success in reforming the PFM system—with observable impacts on system outcomes—was being achieved. Employing the methodology developed by Barzelay et al. (2003), this case study explores three key questions:

1. Why did such significant public management policy change in PFM start to occur in 2005?
2. How did PFM reform occur given the status quo in both the level of institutional capacity and political will?
3. What lessons does the analysis of this case offer to those seeking to fulfill such acknowledged requirements for reform in low income countries under stress (LICUS), especially ‘political will’ and ‘institutional capacity,’ in supporting reform?

The next section explores the prior events in the period 1997-2002 leading up to the launch of the PFMRP and the contemporaneous events important for understanding the program’s preparation. The third section explains the program’s design while the fourth section analyzes the implementation of the program. Using Kingdon’s (1984/1995) model of the policy making process, the fifth section concludes by answering the key questions, as well as subsidiary questions, raised.

NARRATIVE HISTORY OF KEY PRIOR EVENTS AND KEY CONTEMPORANEOUS EVENTS

A. Prior Events, 1997-2000

After the violence of 1997, DPs began to focus more on supporting the development of more robust public institutions. While since the peace accords there had been some progress in the social sectors (DPs had focused attention and resources on health and education in particular), DPs became increasingly convinced that the constraints on better health and education services lay in ‘whole of government’ systems in public finance and the civil service.

Public financial management (PFM) reform has thus been considered a major constraint by both DPs and the RGC since the mid-1990s, when the RGC began to emphasize improving the state budget system in order to satisfy the core needs of the bureaucracy. Operational expatriate technical assistance (TA) with World Bank funding was installed in the Ministry of Economy and Finance (MEF) to manage budget operations. The

emphasis, however, was on actual operations rather than capacity development and system change.

In order to take stock of the situation and craft appropriate reforms the World Bank undertook the first public expenditure review (PER) in Cambodia in 1997-98. The PER made it clear that the main constraint on sectoral performance was the inability of the government to collect sufficient revenue and deliver it to spending agencies in a timely and predictable manner (World Bank, 1999). While the PER—with its raft of recommendations—was welcomed as the first thorough analytical examination of Cambodian public finance, the reform impact of the report was minor. Aside from a few measures, such as setting up the Budget Strategy and Enforcement Committee and the introduction of the Priority Action Program (PAP), which either proved unsustainable or problematic in themselves, the PER generated scant change and the PFM system continued to be regarded as highly inefficient, ineffective, and plagued by corruption. The PAP system, which was an attempt to circumvent the existing system by establishing a new streamlined budget execution mechanism, serves as an instructive example. Though it had some limited success (*viz.*, in delivering operating expenditure budgets to primary schools), it was ultimately unsustainable as it did not address the core problems limiting the performance of the PFM system. The PAP reform, like the policy to steadily reallocate spending toward the social sectors and away from defense and security, demonstrated political will to improve service delivery. The PAP reform also indicated, however, that wholesale reform of the PFM system was regarded as untenable at the time.

DP practices themselves inadvertently contributed to maintaining the weak state of Cambodia's institutions. A core feature of the delivery of assistance in Cambodia, since the UNTAC period, has been the use of salary supplements in conjunction with project implementation units (PIUs). Given the destruction of Cambodia's state bureaucracy and the policy of mass extinction perpetrated against professionals by the Khmer Rouge, the Vietnam-supported State of Cambodia found itself in 1979 with very weak capacity. Political principals found it necessary to rely on expatriate advisors to a large extent (see Gottesman, 2004; Smoke and Taliercio, 2007).

At the start of the UNTAC period, though state institutions were still weak, the government was run by a competent core group of returned exiles and younger Cambodians who had been educated abroad. With the sudden influx of ODA after the Paris Peace Accords in 1991, DPs turned to these Cambodian civil servants to implement donor projects. The use of salary supplements to “hire” civil servants to work in PIUs has been a persistent, and in some cases growing, feature of Cambodia's aid dependence (see Godfrey et al., 2001). The main problem with such salary supplementation practices is that they actually undermine efforts to build government capacity by siphoning off the “best and the brightest”—and MEF was no exception. These practices have also reduced the demand for civil service reform by providing a minimum amount of capacity to execute high priority projects.

The second reason why whole-of-government CSR has not materialized over the past decade has to do with the political economy of public finance and coalition building in a post-conflict environment (see Smoke and Taliercio, 2007). The RGC has eschewed rationalizing civil service pay and employment in favor of using the civil service—in terms of patronage-based employment practices and control over state-administered resources—to cement political alliances and control. Some RGC officials have argued

that it is more important to use the civil service to promote “peace and stability” than to deliver public services.

B. Contemporary Events (2001-2004)

In the early 2000s the World Bank and the International Monetary Fund adopted the policy of requiring low income countries to produce poverty reduction strategies in order to continue to qualify for assistance. Work on Cambodia’s first National Poverty Reduction Strategy (NPRS) began in 2000. Led by the Ministry of Planning, including considerable consultation with civil society and non-governmental organizations, and garnering great interest from many DPs, the NPRS was finalized in 2002.

Perhaps the most important result of the NPRS was to call attention to the wholly inadequate delivery of public services in Cambodia. Despite millions of dollars in aid and many speeches, it had become clear that in most sectors service quality and quantity were highly unsatisfactory. It also seemed that the special Priority Action Program, which was supposed to speed resources through streamlined channels to high priority ministries, had failed to meet its objectives. The systemic usual culprits—public financial management and the civil service—emerged again to explain the lack of progress in service delivery.

In a serious attempt to address this major binding constraint on Cambodia’s development, the IMF, UNDP, ADB, DFID, and the Netherlands launched the Technical Cooperation Assistance Program (TCAP) in mid-2001 to support PFM and financial sector reform. The program lasted for about 2 ½ years and financed over US\$ 6.7 million worth of TA and training, including relatively high monthly salary supplements for a small core group of MEF staff tasked with managing the program.

TCAP, however, was deemed largely unsuccessful in PFM.² Ex post reviews by both the IMF and the UNDP came to similar conclusions. According to the IMF review, the impact of TA was “the weakest” in the area of PFM (IMF, 2004: 4). The UNDP review found that, though there were some achievements in some of the focus areas, “the program could have achieved much more for the amount of money spent on it (UNDP, 2004).”

The IMF review blamed the RGC’s “lack of political will” (IMF, 2004: 5) for the failure of the program. In addition, both the IMF and UNDP cited another common denominator to explain the limited impact of the program: “the lack of a functioning civil service” according to the Fund and “the basic structure of incentives to the government officials” according to the UNDP. The Fund review cited the “lack of meritocratic recruitment, competitive salaries, and internal promotion and career stability” while the UNDP review noted the “low salary structure” and “uncertain career path,” both of which contributed to absenteeism and low productivity. The Fund review also underscored the problem of politicization of civil service appointments and internal political rivalry which undermined coordination. Moreover, because TCAP was viewed as overloading the reform agenda, it engendered a sense of helplessness. In addition to the disappointing results, TCAP also produced friction between DPs. Thus, the state of

² The statistics and banking sector work was judged relatively more successful than PFM, and among PFM sub-areas, tax and customs saw some very modest progress in some technical areas.

the relationship between MEF and donors was oppositional, with mutual finger-pointing, while among donors there was a lack of trust and mutual recriminations.

DEVELOPING THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM (PFMRP), 2002-2004

A. Building Trust and Defining the Problem

What became the *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER) commenced in February 2002. The original intention was to support the NPRS by providing analytical inputs on public expenditure-related topics (expenditure policy and management, especially in the priority sectors, and civil service reform), in light of the disappointing experience with both implementation of the PER recommendations³ as well as TCAP. Bank management decided that the IFAPER should be done in a participatory manner to build RGC ownership and to assist in improving donor coordination, given views about the lack of progress since 1999.

The Bank's task team had a clear view about the central themes that the IFAPER should address: (a) improving service delivery and (b) reducing the fiduciary risk to public funds. The *service delivery* theme was concerned with poverty reduction through higher quality and quantity service delivery, and focused on pro-poor expenditure policy and better public expenditure management, including human resource management. The *fiduciary risk* theme centered on safeguarding public funds for their intended use.⁴ It was also decided that the IFAPER would incorporate the Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Report (CPAR), given the interrelations among the topics covered in those reports, the need to minimize transaction costs on the RGC, and the need to harmonize recommendations across public expenditure, financial management, and procurement. The CFAA was smoothly integrated into the overall review. The CPAR, on the other hand, was not successfully integrated. After several attempts, but without sufficient management support, it was decided that the PER and CFAA would proceed on one track and the CPAR on another.⁵

The RGC was very much in favor of a participatory approach to the IFAPER, and believed that the merits of engaging officials in the work would outweigh the costs in terms of financial resources and time. The Bank team worked closely with the assigned counterpart in the Ministry of Economy and Finance (MEF), the Deputy Secretary General, who managed overall RGC participation. The role of the RGC's counterpart team was to guide and participate in the discussions on the IFAPER drafts.

³ See World Bank/ADB (2003), Annex B, for a summary of progress against the recommendations.

⁴ The conceptual framework for this analytical work program was the "breaks in the chain" approach to service delivery analysis. The World Development Report (2004) identifies at least four breaks in the chain between budgets and desired service delivery: (a) spending on the wrong goods or people (expenditure policy); (b) failure of funds to reach frontline service providers (public expenditure and financial management); (c) weak provider incentives for service provision (civil service reform); and (d) demand-side failures that prevent households from taking advantage of service provision.

⁵ The CPAR was finalized in June 2004, whereas the IFAPER was published in September 2003.

Bank management was also aware of the general problem of development partner (DP) coordination in Cambodia (not on PFM, but broadly across a range of issues) and intended for the IFAPER to be a collaborative endeavor with as many DPs as possible. An initial core group of collaborators was established, each playing different roles. The IMF contributed the macro-fiscal section, while the ADB contributed staff and consultant time to engage on the overall project and assist in specific sectors (e.g., education). DFID provided the funding for the health chapter while SIDA provided program support funds for administrative costs, including salary supplements for the RGC counterpart team.

After the concept note was agreed with the RGC, the IFAPER team produced the thematic background papers, followed by the sectoral papers. The ten papers were produced over the period June–December 2002. Two small, technical workshops, involving RGC officials and interested donors, were held in October and December 2002 to review the draft background papers. Executive summaries of the papers were translated into Khmer and participants were requested to provide written comments on the drafts. Each workshop session was chaired by MEF with discussants from the relevant ministries/agencies and sector staff as lead discussants. RGC officials in MEF and the line ministries prepared comments, in most cases written, on IFAPER background papers; these comments were then presented and discussed in technical seminars and drafts were revised accordingly.

The results of the approach were favorable. With the discussion of the draft background papers (as opposed to final products), the Bank was viewed as actively encouraging participation upstream in the process. The workshops also provided an opportunity for line ministries to engage with MEF, and for sector staff to engage on cross-cutting issues affecting their sectors. The venue also allowed for DP participation at an early stage in the process.

The penultimate draft was delivered in May 2003. A June 2003 mission made a presentation to the RGC's inter-ministerial Committee for Economic and Financial Policies. The IFAPER was published as a joint ADB-WB document—the first in Cambodia—in September. A dissemination workshop, with the participation of many DPs and NGOs, both of whom chaired and sat on panels, was held in October 2003.

The IFAPER made four central arguments about the challenges facing the Cambodian public sector. First, Cambodia needed to improve resource mobilization in order to ensure aggregate fiscal sustainability. Despite the need for higher revenues to finance growth and poverty reduction, Cambodia's fiscal revenue ratios, especially tax revenue, were among the lowest in the world. Cambodia's total revenue to GDP ratio stood at 10.8 percent in 2005. Without significant increases in revenues, there were risks to both medium term macro-fiscal sustainability and implementation of the NSDP. To retain public debt sustainability by reducing the risk of debt distress and to finance higher levels of public spending, revenues would have to be greatly increased.

Second, to reduce the fiduciary risk to public funds, the Government would have to engage in comprehensive reform of budget execution, public financial control systems, and procurement. Weaknesses in the PFM system not only had high costs in terms of allocative and operational efficiency but had created high levels of fiduciary risk to public funds. The cash-based payments system emerged as a major constraint. Increasingly, budget execution had suffered from delays and an unpredictable release of funds, due to cash constraints, undermining operational planning and resulting in the

build-up of arrears (see Table 1). The system was plagued by gate-keeping and deficient accounting and reporting systems, thus leading to a weak control environment and increasing opportunities for corruption. Thus, in comparative perspective, Cambodia's PFM system ranked well below average (as compared to the low income countries assessed by a joint World Bank-IMF diagnostic tool, Cambodia scored a 3 out of a total possible fifteen criteria met), indicating the need for substantial upgrading.

Table 1. The Back-loading Problem: Percentage of Expenditure Posted in December, 2000-2001

Economic/Sector	2000		2001	
	Central	Provincial	Central	Provincial
Civil Recurrent	43.4	22.8	31.6	29.9
Ch. 10: Salaries	11.6	19.4	14.1	23.7
Ch. 11: Operating Costs	38.2	25.0	42.2	34.9
Ch. 13: Specific Program Activities	47.7	100.0	47.3	70.0
Capital Domestic Financing	10.8		18.2	
Defense and Security	17.2		18.5	
Education	63.2	21.1	34.7	30.2
Health	59.7	31.7	71.4	43.6
Agriculture	41.2	18.6	30.7	28.0
Rural Development	31.5	22.1	13.2	27.4

Source: Bank estimates based on MEF TOFE.

Third, in order to reach the stated poverty reduction goals, it would be necessary to improve the effectiveness of spending by linking it more closely to priority outcomes. In education and health planning processes had improved and greater linkages between planning and budgeting had been developed, resulting in somewhat improved prioritization of spending. Agriculture and road transport—the other priority sectors—had yet to make progress on this front.

Fourth, Cambodia needed to undertake strategic civil service reform—focusing on pay and employment issues—in order to deliver poverty-reducing services. Given the serious problems afflicting the civil service—low pay, low skills, and thus low capacity—strategic civil service reform would have to be accelerated in the short term and carried out over the medium term if the Government's vision of poverty reduction is to become reality. Moreover, it was clear that low public sector wages provided a breeding ground for corrupt practices. At the same time it was apparent that low pay was a leading cause of Cambodia's relatively poor standing on public sector performance.

A number of initial intermediate impacts obtained around the time of publication in late 2003. First, IFAPER analysis and recommendations were incorporated into the NPRS and the Government's draft Rectangular Strategy (this would become the political platform of the new government formed in July 2004). Moreover, other results were seen in citations of the review in the press and its purported use in political negotiations among coalition partners and the opposition. The IFAPER was also used to teach public finance at MEF's Economics and Finance Institute. Key sectoral recommendations were incorporated into the education sector's core policy matrix. On the Bank side, the IFAPER agenda became one of the pillars of the Bank's 2005 Country Assistance Strategy.

Discussion

These intermediate outcomes were, more importantly, indications of two much more profound and far-reaching results. First, the participatory approach to the IFAPER entailed sufficient consensual and upstream engagement by MEF and other ministries, as well as other donors, such that more than a modicum of trust was built between government and donors. More specifically, beyond some initial trust building, the IFAPER process laid the foundation for a deeper trust to emerge during the solution design phase—trust by DPs that the government would take PFM reform seriously and trust by the government that DPs would take government’s concerns about how to effectively manage the reforms seriously. Government officials began to believe that DPs would listen to officials’ concerns about managing the pace and modalities of reform, and might also help to alleviate some of the binding constraints to reform.

Second, the IFAPER process yielded an agreement on key problem definitions. The agreed problem definition consisted of the four key findings noted above. In particular, the definition of the budget problem as the lack of a credible budget—in terms of delivery of resources to budget managers in a timely and predictable manner—resonated broadly and deeply. The problem of unpredictable budget execution became viewed as the principal binding constraint on system performance. Thus the IFAPER process ended with the building up of trust in a difficult environment and agreement on the definition of the main problems constraining system performance.

B. Designing and Managing the Solution

The completion of the IFAPER came two months after the initially inconclusive national elections of July 2003. While the CPP had won a simple majority, it had not garnered enough support to pass the 2/3 threshold (of seats in the National Assembly) set by the constitution, and thus had to enter into negotiations about forming a government with the royalist FUNCINPEC and eponymously named Sam Rainsy parties. The complicated tri-partite talks resulted in an eleven-month political stalemate, which provided an unexpected hiatus in policy making and allowed MEF and DPs the opportunity to craft a more comprehensive and robust solution than would otherwise have been the case. Normally, after the production of a major report, there is pressure from DP management to move quickly to implementation of key recommendations, with little regard for management of the reform process, to demonstrate ‘political will’ and reform impact. Jumping from a technical report to implementation misses a key step in LICUS—ensuring that appropriate management structures are in place to support implementation.

Before DPs were able to provide a coherent design solution approach to the government, they had to agree an approach among themselves. Given that DPs were not starting from a *tabula rasa* in late 2003 (and very rarely do), and given the difficulties with implementing TCAP, though the IFAPER had generated greater consensus, DPs were far from agreement. The “PFM sector” in Cambodia was particularly fragmented. The IMF focused on tax, customs, budget management, and Treasury reform, the ADB focused on the MTEF and internal audit, and DFID supported specific consultancies, in addition to financing other members’ TA. In addition, French bilateral TA focused on

budget classification and tax, while JICA bilateral TA addressed tax and budget reform. The non-TCAP TA was not coordinated with the TCAP TA. Moreover, the TCAP donors did not so much work together as work in a “division of labor” mode. Each donor pursued its piece of the agenda without much interaction on the substance of the program. This ultimately undermined the coherence of the program.

In June 2003 MEF convened a meeting of the ADB, DFID, IMF, and WB to discuss post-TCAP coordination arrangements.⁶ Based on the experience of TCAP, which was problematic in a number of ways both in design and implementation, DPs had different views about a successor arrangement. Some DPs wanted to take a more traditional bilateral approach, while others argued for an improved coordination mechanism. The IMF, for example, felt that the difficulties with the TCAP experience argued for going back to separate bilateral interventions. Others, such as DFID, for example, argued that it was necessary to improve on the coordination and learn from the lessons of TCAP in designing a new program.

The Bank felt strongly that a more coordinated approach was needed, and proposed a sector-wide approach (SWAp) for PFM, based on the Bank-Fund board paper.⁷ The ADB and DFID were interested and supportive of the new approach. In order to operationalize the idea of a PFM SWAp, the Bank, ADB, DFID, and the RGC agreed to a series of three joint PFM missions. Other DPs—IMF, EC, AusAID, JICA, the French cooperation, and UNDP (SIDA later joined)—joined the missions on an associated basis. Slowly over the course of the year, as the work progressed, DPs became more and more convinced of the approach, and the level of engagement increased. Though one or two DPs remained skeptical, it was clear that the “train had left the station,” which motivated these DPs to participate, even if reluctantly at times.

The purpose of the joint PFM missions was to assist the RGC with the development of a comprehensive PFM reform program, consisting of:

- a. A sequenced, prioritized, costed annual (rolling) action plan, based on a clearly articulated vision of the PFM system’s key features, fully owned by the RGC;
- b. A corresponding performance management framework, based on the Public Expenditure and Financial Accountability (PEFA) performance management indicators and tailored to the platforms of Cambodia’s reform program;
- c. A corresponding organizational change and capacity building strategy, including attention to pay and employment reform issues that would impinge upon the ability of MEF to implement the reform program;
- d. A government management structure and coordinated donor arrangements.

The joint PFM missions took place in January-February, March, and July 2004.⁸ As the objective of the missions were to assist with the development of an integrated PFM

⁶ TCAP, set to expire in early 2004, was extended to mid-2004 to allow for completion of some consultancies.

⁷ World Bank and International Monetary Fund, “Bank/Fund Collaboration on Public Expenditure Issues,” February 14, 2003.

⁸ Details are found in the three joint mission aide memoires.

reform program—owned, understood, and internalized by staff at all levels in MEF and the rest of Government—considerable attention was paid to the mode of engagement. The joint donor mission proposed to provide support as needed and requested by the RGC, acknowledging that advice provision needed to be carefully balanced with allowing space and time for MEF to genuinely develop its program.

The Technical Solution

In order to orient the substantive work on designing the solution, MEF management developed a vision statement (PFM Vision 2015).⁹ The statement put forth the objective of “instilling much higher standards of accountability and management in the mobilization of public resources and effectiveness and efficiency in their use to implement” the NPRS. It also specified a long term objective: to exceed regional standards and meet best international standards by 2015.

The IFAPER findings were fairly typical of LICUS PFM systems in that systemic weaknesses pervade the public sector, and, given low capacity, cannot all be addressed at once. The typical approach is to compile a priority list of reforms in each PFM sub-system/stage, without a sense of priorities across sub-systems (e.g., formulation, execution, audit). This often leads to development of a fairly predictable list of recommended reforms over a three year period. What was unique in the Cambodian case was a very serious attempt to develop a logic of prioritization based on the IFAPER’s problem definition.

The RGC and DPs, drawing on TCAP reports and the IFAPER,¹⁰ and using the “platform approach,”¹¹ adopted a sequenced approach consisting of the following four platforms (Figure 1):

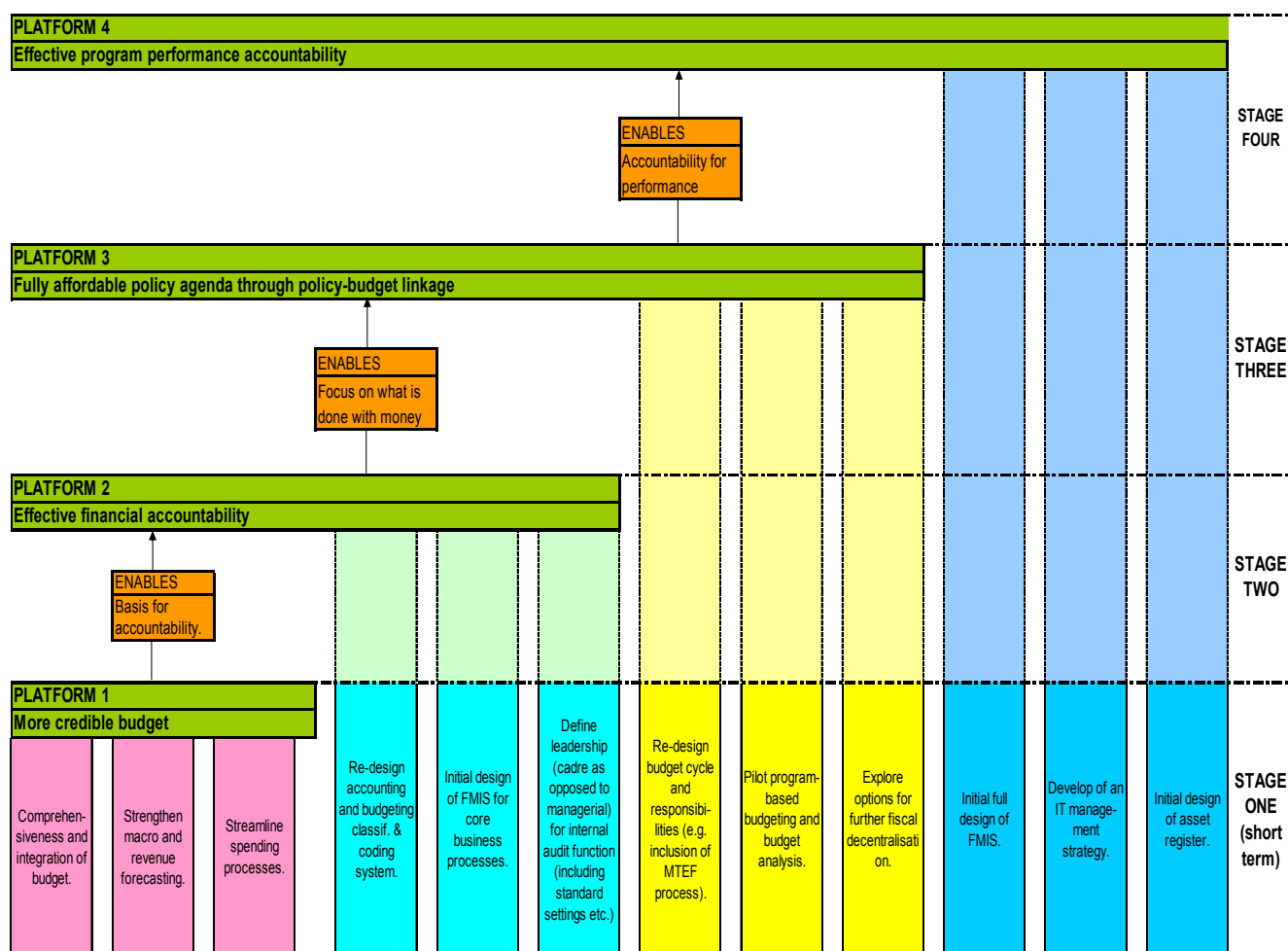
1. Platform 1: The budget is made credible because it delivers resources predictably and reliably to budget managers (this provides the basis for accountability by improving budget execution);
2. Platform 2: Initial improvements are made in internal control and holding managers accountable (this enables a focus on what is done with resources by providing better data, effective discipline, and greater internal transparency);
3. Platform 3: Improvements are made in linking policy priorities and service delivery targets to budget planning and implementation (this enables greater accountability for performance); and,
4. Platform 4: Accountability and review processes for both finance and performance are integrated (this would result in greater external transparency and provide a solid basis for deconcentration).

⁹ Included in RGC (2004b).

¹⁰ Once the CPAR was completed, the recommendations were incorporated into the PFMRP as one of the activities of the consolidated action plan.

¹¹ See Brooke (2003).

Figure 1: Cambodia's Four PFM Reform Platforms



Source: MEF (2004).

The missions, in which MEF officials participated directly as mission members, were successful in attaining their goals. By the end of the last mission, MEF had produced a Consolidated Action Plan (CAP) for Stage 1¹² of the reform program (including capacity development and organizational reform measures), a long-term PFM vision statement, and a performance management framework.

The CAP laid out a detailed sequence of reform measures for completing Platform 1 by MEF department on a monthly basis. The CAP, the blueprint of the reform program, was based on and aggregated from individual (and more detailed) departmental action plans. The CAP also formed the basis for the quarterly monitoring reports by the departments and MEF's RCS.

The Performance Management Framework (PMF) was based on the PEFA performance indicators with modifications both to include areas that it was felt were not given adequate attention and to deemphasize areas on which the first phase of the reform

¹² Stage 1 comprises all of those actions necessary to implement Platform 1, as well as those actions for subsequent platforms that need to be initiated early.

program did not focus (see Table 2). The main purpose of the framework was to manage the reform program and keep it focused on practical impact.

Table 2. PMF: Performance Indicators and the PFM Reform Program

PFMRP Objectives	Platform One Performance Indicators
To ensure that the budget is realistic and implemented as intended in a predictable manner.	<ol style="list-style-type: none"> 1. Revenue out-turn increasingly close to targeted level in approved budget 2. No accumulation of new arrears and steadily declining stock 3. Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts 4. Service delivery units receive an increasing proportion of funds targeted at their levels (and of goods and services meant to be procured for them) increasingly timely 5. Public procurement based on clear rules, consistently enforced, with no major delays in processing and payment 6. Composition of expenditure by type close to approved budget 7. Better yield achieved from tax base through improved efficiency and planned use of non-tax sources
To ensure that the budget is comprehensive and policy-based by capturing all relevant fiscal transactions and is prepared in an orderly, predictable way.	<ol style="list-style-type: none"> 8. Single and orderly budget process producing good (and integrated) budget plans 9. All significant areas of both public revenue and expenditure captured in both the budget and accounts of the Government 10. Budget has direct influence over nominal staff roll (establishment) and decisions on post creation and recruitment
To ensure that the aggregate fiscal position and risks are monitored and managed.	<ol style="list-style-type: none"> 11. Interim measures introduced to improve accounting data aggregation and cleanse data sources 12. System in place to ensure that proposals for post-budget supplementary expenditure credits are always accompanied by an MEF report on realistic options for financing the expenditure involved
To ensure that the financial management system is robust and capable of responding to in-year pressures in orderly way.	<ol style="list-style-type: none"> 13. Institutionalized mid-year budget review feeding into 2nd half-year budget implementation and budget preparation for following year 14. Annual forecasts of all in-flows and out-flows prepared and regularly updated (based on accurate revenue forecasts and good budget implementation plans)

The purpose of the performance indicators was to measure progress over time. Since the reform program spanned many years and consisted of four platforms, there was a need to set progressive aims as the program unfolded. There was a need to target performance changes for each platform.

After the framework was agreed, a baseline assessment was carried out. The baseline informed target setting on an annual basis. As the baseline was measured in 2004, targets were set for 2005 and 2006. MEF's quarterly progress reports assessed performance against the framework and baseline values.

MEF and DPs also considered the problem of low capacity a binding constraint on reform, but formulated an approach to capacity development that attempted to get to the root of the problem. MEF suffered from the same problems as the rest of the civil service, and until these problems were addressed, reform programs would continue to flounder. In response, it was argued that business as usual, which mostly consisted of salary supplements, would not be good enough this time: "Recognizing the significant problems created by piecemeal and fragmented approaches by DPs to tackling issues of public sector pay and incentives in the past, the mission agreed on the need for a significant departure from previous practice."¹³

DPs and the RGC agreed on the need for a special incentives program. By late 2004 the Merit-Based Pay Initiative (MBPI) took shape. The essence of the MBPI was to introduce into the civil service higher pay coupled with meritocratic selection and performance management on a sustainable basis to support agencies' missions. The MBPI attempted to institutionalize an accelerated salary enhancement program based on a number of key features. First, the government agreed to pay an increasing share of the cost over time, eventually assuming the full cost of the initiative. Second, the participants were selected on merit according to agreed criteria, and there was a mechanism to remove non-performers. The MBPI was also anchored in official government pay policy (a proviso allowing special allowances for high priority activities). The management of MBPI, supervised by the RC, was based on the MBPI Manual developed by MEF.¹⁴

After nearly one year of design work and tripartite negotiations between CAR, MEF, and DPs, a memorandum of understanding (MOU), including an operations manual, on the PFM MBPI was signed in May 2005. On August 5, 2005, the Prime Minister issued Sub-decree 98 on the "Implementation of the Merit-based Pay Supplement Incentive," which established the official legal foundation for the MBPI.

The MBPI, which commenced in December 2005 (with payments made retroactively from July 2005), was undoubtedly the most important structural mechanism put in place. Though the initial phase of the MBPI only included about 5 percent of MEF staff and the additional remuneration was modest—the initial number of MBPI participants was 259 (including 10 staff in the RCS) with an average monthly payment of US\$ 214—the effect was transformational.¹⁵ While it is too early to definitively measure the impact of MBPI, MEF and DPs agreed that the MBPI has had an important and positive impact on the implementation of the PFMRP (see ASI 2006 and PDP Australia 2007). MEF management reported that the MBPI had improved the productivity of staff and increased their overall level of output, in part by reducing absenteeism and requiring staff to focus explicitly on the quality of their contributions to the reform program. For

¹³ World Bank et al. (2004a).

¹⁴ For a full analysis of the genesis and design of the MBPI, see Taliencio (2008).

¹⁵ The 249 participants were selected from 16 MEF departments based on the number of departmental activities in the CAP.

the first time in decades, selected staff earned a decent wage and, in return, were required to demonstrate acceptable performance in implementing the reforms. Anecdotal evidence indicates that the MBPI empowered managers to demand that staff perform up to expectations and at the same time helped staff feel valued and appreciated by management.

The MBPI was also directly tied to the agreed reform program, including overall administrative reform. Key provisions included: a functional analysis to be undertaken in MEF and recommendations on rightsizing implemented; and piloting of establishment control. The MBPI also targeted salary supplements and other forms of remuneration for rationalization. Salary supplements were not allowed for MBPI participants and MEF agreed to end all salary supplements starting with Stage 2. In addition, existing departmental schemes (in tax and customs) were to be rationalized.

The Management Mechanisms

The RGC and DPs also became convinced of the need for a new approach to managing the reforms. In response to the need to manage the rapidly emerging work program, MEF created a Reform Committee, chaired by the Secretary General, to lead and monitor PFM reform, including by coordinating with other ministries and DPs.¹⁶ The RC met at least monthly with additional meetings as required. On many occasions, the minister chaired RC meetings and the RC became the instrument for the executive management to steer the ministry. The RC created a Secretariat (RCS) to manage the PFMRP on a daily basis at the departmental level and to engage with DPs on an operational basis. The RCS became instrumental in managing the program's operations and served as an effective bridge between MEF's management, its departments, and the DPs.

The joint missions also proposed the architecture of the RGC-DP collaboration, consisting of three mechanisms. The first was the PFM Technical Working Group (TWG), jointly chaired by the RGC and DPs. The TWG, which met on a quarterly basis, was the forum for overall RGC-DP. The TWG also met annually for a joint RGC-DP off-site retreat. The second management mechanism was the Development Partner Committee (DPC), which convened all the DPs in the PFM TWG, initially under the chairmanship of the IMF and later the Bank. The DPC met monthly for regular meetings and more frequently as needed. When funding became available, the DPC hired a full time resident specialist to manage operations for the donor group.

These management mechanisms were underpinned by the 'Partnership Principles,' which set out the collaborative rules of engagement in the sector. DPs and RGC reached consensus that the spirit of the principles entailed constantly seeking ways in which to improve program coordination, minimize the human, institutional, and financial costs of securing such coordination, and maximize the effectiveness of coordinating arrangements to secure program delivery. The 'Partnership Principles' were signed by the Minister of Finance and most DP heads of agencies or ambassadors. They served the purpose of providing clarity on the expectations regarding partners' behavior.

¹⁶ MEF Prakas No. 081, March 10, 2004.

The relationship between the RC/RCS and DPC developed into a close partnership in which information was shared regularly and monitoring done—in effect—jointly. The RCS prepared quarterly annual progress reports, which were submitted in draft and final versions to the DPC. The reports tracked the individual actions in the CAP, which allowed for close scrutiny of progress by MEF senior management as well as by donors. The reports also tracked progress on the performance indicators. In addition, an annual progress report was produced by the RCS. Moreover, in order to provide an impartial assessment of both MEF and the DPC, an independent external advisory panel was contracted to produce an annual evaluation report covering the CAP, performance indicators, MBPI, and management mechanisms.¹⁷

On the donor side, an important additional coordination mechanism was also developed. A subset of DPs decided to pool their resources to improve technical assistance effectiveness, in part by reducing transaction costs for MEF. Toward this end the Bank established and managed a PFM Multi-Donor Trust Fund (MDTF), which was funded initially by AusAID and DFID, and later by the EC, CIDA, and Sida. The MDTF funded MEF's implementation of the PFMRP as well as permitted the establishment of a DP secretariat (staffed by a resident public sector specialist hired by the Bank) with management and coordination functions. In addition to the benefit of additional staff time, the trust fund had another important effect—it effectively anchored the pooling donors together and created a critical mass that could guide and manage the larger donor group. This was particularly important given that there were a dozen DPs working in PFM in Cambodia.

The MDTF provide approximately US\$ 17 million, while the Bank, in May 2006, approved an IDA grant of US\$ 14 million to support the PFMRP. Both sources of funds are channeled into a single MEF account, enabling the RGC to manage the trust fund and the project as a singular entity. The RCS manages the bulk of the trust fund/project according to World Bank financial management and procurement procedures. The final piece of the puzzle—full financing—was thus put in place by mid-2006, ensuring adequate resources to fund the reform program for five years.

Discussion

The effect of the aggregate set of technical and management solutions was to address all of the binding constraints that had been noted by government and donor participants: weak ownership, inadequate incentives, weak capacity, and the lack of coordinated donor advice. The technical and managerial solutions were also mutually reinforcing to a great extent. Putting the solutions in place, however, took the better part of a year. The joint missions commenced in January 2004 and the PFMRP was launched by the Prime Minister in December 2004. A number of specific benefits and insights are worth noting.

The vision statement proved effective not only in focusing the strategy and action plan, but also in justifying the time frame for the reforms. The vision stated unambiguously that the PFMRP would take a decade to achieve. This was important in convincing donors and some officials that reform was a long term process, not a game of 'quick

¹⁷ See Adam Smith International (2006) and PDP Australia (2007).

wins.’ With the long term roadmap effectively articulated, attention could focus on successful implementation of the modest program of reforms in Platform 1. The vision statement thus also helped to deflect pressure to reform more and to do so more quickly, keeping both the workload and expectations manageable.

The platform approach also played an important role by providing a useful metaphor to motivate and guide change. Platforms are constructed one at a time and on top of each another. Each platform is the base on which to build the next one, so some measures are clearly indicated as prerequisites for others. The basic approach was to first remedy key operational deficiencies and then address system upgrades, keeping the workload and expectations manageable.

The platform approach yielded two main benefits for reform management. First, the logic inherent in the approach allowed MEF to keep a sharp focus on defined priorities. There is often pressure, sometimes from donors, to add on reform measures that respond in some ways to their constituencies. Unchecked, pressure can lead to overloading of capacity. The approach thus enabled senior officials and staff to design and implement a manageable set of reform activities. As simple as it sounds, this had not been possible in the recent past.

Second, the manageable set of activities effectively balanced building up momentum with allowing time for internalization of change. As success of reform programs such as this depends in part on the pace of change, this balancing was particularly important. The pace of change allowed for sufficient momentum to be built up so that management and staff, as well as donors, could perceive progress and thus develop positive attitudes toward the reform program, thereby enabling greater support among constituencies. At the same time the pace allowed management and staff to understand and therefore feel more comfortable with the change process.

The CAP and the performance measurement framework provided the basis for accountability and successful management of the program by enabling highly effective monitoring of reform measures and outcomes by both MEF senior management and DPs. Actions and outcomes were tracked at a sufficient level of detail, and on a regular basis, to allow further trust building between MEF and DPs. The management mechanisms allowed senior managers on both sides to exert control over the reform process, and provided incentives for line staff to perform.

These management changes induced a slow moving but perceptible change in MEF’s organizational culture. For example, MEF began to hold retreats for the first time, and the RCS began to give ‘road shows’ to promote the reforms in the provinces. MEF management also strengthened its feedback loops such that learning took place, allowing for mid-course improvements and corrections.

Lastly, it is important to note that leadership by MEF (the Minister, the Secretary General, the Deputy Secretary General, and the head of the RCS), supported by leadership by the World Bank on the donor side, made for effective use of the new array of technical and management solutions. Without political leadership, of course, nothing would have happened, but the paper will argue that political leadership was necessary but not sufficient.

STEADY AND CONSISTENT IMPLEMENTATION OF THE PFMRP, 2005-2007

By the time the political stalemate had been resolved in July 2004 by the CPP-FUNCINPEC alliance, the preparation for the PFMRP had taken nearly a year (and nearly two years if one includes the IFAPER process). The launch of the PFMRP by the Prime Minister in December 2004 provided a clear indication of the highest level of political support, and the program formally commenced implementation in February 2005—exactly three years after the launch of the IFAPER. This section briefly reviews major PFM reforms over the period 2005-2007. The next section discusses the additional management mechanisms that were put in place to support implementation.

A. First set of reforms—2005

As envisioned by the platform approach, reforms were to be implemented in a phased manner. The measures undertaken in 2005 were largely preparatory steps across a range of reform areas and, in themselves, did not constitute fully completed reform measures that would contribute to discrete outcomes. For the most part, the measures undertaken in 2005 laid the foundations for completion of reforms in 2006 and 2007. The 2005 measures focused on: gathering information and undertaking research; establishing working groups, units, and new departments; developing technical and project plans; redesigning systems and amending decrees; and conducting seminars and workshops.

The most important reforms in terms of impact accomplished in 2005 were: issuance of the sub-decree on internal audit function and establishment of internal audit offices in five line ministries; issuance of a new prakas on deconcentration of procurement authority to line ministries; reduction of the stock of payment arrears by almost 42 percent; and a functional reorganization of the Tax Department. At the same time there was slower than expected progress in a number of areas, including: redesigning the budget commitment and payment process; integrating reporting of capital spending into fiscal reports; reporting on non-tax revenue collections; and consolidation of government bank accounts into the Treasury Single Account.¹⁸

The main lesson learned from the first year of implementation was that cross-departmental tasks were very difficult to accomplish. MEF's departments had no history of cooperating with each other and the lack of cooperation and coordination very quickly emerged as a serious impediment. Specific areas of problems with coordination were highlighted in MEF's 2005 Annual Progress Report, resulting in senior management action. To solve the problem MEF created functional working groups composed of multiple departments working on related issues under a senior manager (Deputy SG). Cooperation between MEF and the line ministries, however, proved even more difficult to address.

¹⁸ For an independent view of progress and challenges, see the 2006 External Advisory Panel Report (Adam Smith International, 2006).

B. Second set of reforms—2006 and 2007

Major reforms measures commenced implementation in January 2007, including: a significant streamlining of budget execution procedures, the introduction of a program budget pilot, and adoption of a new chart of accounts. These followed on from significant reforms in 2006: the amount of customs revenue collected through the banking system increased (from zero in 2004 to nearly 1/3 in 2006); more than ¾ of all Tax Department revenue was collected through the banking system and about ¾ of Treasury payments to suppliers in Phnom Penh and Sihanoukville were made by check instead of cash by 2007; the procurement process was streamlined, tightened, and made more competitive with the passing of a new sub-decree in late 2006; the Government had set up internal audit departments in a dozen line ministries, and, for the first time in Cambodia, a pilot program was launched to pay civil servants through commercial banks instead of by cash. Though reform measures continued to be refined and implementation was not without challenge, it was clear by early 2007 that Cambodia had finally begun to transform its PFM system.

MEF continued procurement reforms as a central plank of making the budget credible. MEF accelerated the amendment of the foundational 1995 procurement sub-decree and in late 2006, the Prime Minister signed a new sub-decree, which provided an improved framework for implementation of public procurement in Cambodia.

MEF also developed and implemented program budget pilots in priority line ministries, including Education, Health, Justice, and Women's Affairs. MEF regarded the introduction of program budgeting as essential for introducing a stronger focus on results in public service provision, and stressed the importance of monitoring performance indicators in the context of program budgets. Refinement and expansion of the pilot was planned for 2008 and 2009.

MEF continued to develop the internal audit function. By 2006 the RGC had created nineteen internal audit departments in line ministries (of these, seven were operational by 2007). To further improve accountability and control, MEF took the first steps toward procurement of a Financial Management Information System for budget management. Other reforms—in debt management, budget integration and comprehensiveness, and cash management—were also undertaken.

As in the initial period, there were some areas of the program that saw less progress and others that saw none at all. The principal obstacle to reform in some areas was undoubtedly corruption. In some system areas, officials who were corrupt had reasons to oppose reform, as reform would have meant fewer opportunities for rent-seeking. In practice, this meant that some areas suffered significant delays.

One of the most difficult measures was the implementation of new transaction processes from budget release to commitment to payment in order to streamline ability of budget holders to spend in line with the budget. The key features included: (a) simplification of salary approval in the seven priority line ministries; (b) streamlining of execution for non-procurement items, including special arrangements for schools and health operating districts, and revamped commitment and payment, which reduced processing time from an average of 16 to an estimated 8 days; and (c) redesigned commitment processes for procurement items for program budget expenditures, such that commitment approval is only required twice per year. These measures had been resisted by some units in MEF, as they reduced opportunities for gate-keeping. The management, however, after

initially delaying the measure in 2005, pushed it through in 2006-2007, as it understood that budget credibility would not be achievable without transaction streamlining.

Another reform area that suffered delay was making greater use of the banking system for tax and customs payments, and for payments to creditors and civil servants via transfer and/or check. Originally due to a very limited banking infrastructure, Cambodia's system had long relied on cash transactions. Cash transactions, and weak record keeping, also facilitated corruption. The measures implemented, however, which were critical to the success of the overall reform program, moved the system a long way toward reliance on the banking system. Though these measures did not eliminate corruption, they made it costlier and riskier, and thus less likely.

In other areas, it appeared that the reformers were not able to overcome the vested interests. One area that continued to stagnate was the control of the civil service establishment and payroll. Due to resistance from the Council for Administrative Reform (CAR), it was not possible for MEF to pilot establishment control arrangements. Another area that proved very tough was the consolidation of bank accounts held by line ministries. Reports indicated the existence of hundreds of supposedly government accounts (e.g., for collection of fees) held and managed as off-budget accounts. This area continued to be problematic and progress was disappointing. There are also other serious corruption problems, in such areas as logging, that fall outside of the PFMRP entirely (see Smoke and Taliercio, 2007, for a general discussion). There is no doubt that while the PFMRP strengthened good governance overall, numerous and important corruption-related challenges remain.

By mid-2007 the view that Cambodia was making solid and steady progress in PFM reform was widely held, even among civil society organizations. At the 2007 Consultative Group Meeting in June, the IMF (2007), on behalf of all DPs, declared that,

There appears to be considerable political and managerial commitment and stakeholder consensus on the way forward. Challenges exist but these appear to be generally recognized, with agreement on a broad vision of the future path and identification of the steps needed to progress. There also appears to be willingness, in both MEF and the line ministries, to build the technical capacity necessary to follow the reform path.

The 2007 External Advisory Panel Report (PDP Australia, 2007: 16) also documented the progress made, noting that of the 29 sub-indicators used to measure performance of the PFMRP, 15 were met or mostly met, 5 were partly met, 6 were not met, and 3 were not measured. This level of broad progress across numerous PFM functions was a significant departure from past practice. Cambodia had succeeded by reaching a critical mass of reform measures, such that improvements in outcomes (supported by evidence and measured by the agreed performance indicators) were evident. As a consequence, perceptions of Cambodia's PFM reforms shifted from 'no track record' to 'turn around case.' Cambodia had indeed, as the Prime Minister requested, reformed the way it reformed.

CONCLUSION – HOW PUBLIC MANAGEMENT SOLVED THE PROBLEM

The case study of Cambodia's PFM reforms over the period 2005-2007 raises a number of interesting questions. Perhaps most obviously: why did public management policy change occur in 2005-2007, given little change in the previous period? In comparative perspective, the turnaround that Cambodia experienced in PFM reform is also of interest given Cambodia's status as a low income, post-conflict country. This is interesting because failure was the more likely outcome given failures of PFM programs in other such countries and the failures of other reform programs in Cambodia, including the previous PFM reform program.

The stock argument among development practitioners in low income countries is that 'political will' is the principal determinant of reform. In fact, that was the argument made by DPs in Cambodia after the failure of TCAP (IMF, 2004). If that argument were true—that a lack of political will was holding back PFM reform in Cambodia—then one would have to argue that a sudden increase in political will must explain Cambodia's implementation of PFM reforms from 2005-2007. The problem, however, is that there is no convincing way to make such an argument.

Political will is itself a problematic concept. For the purposes of this paper it is defined as 'political incentives for reform,' where incentives are considered as net benefits accruing to politicians from taking reform action. Political incentives can change when political conditions (politicians in power, change in revealed voter preferences, etc.) change. Despite the elections of 2003, very little change in political incentives was noted. First, the same ruling coalition (CPP-FUNCINPEC) was brought back to power with the same party in opposition (Sam Rainsy), thus indicating no change in fundamental party dynamics. Within the coalition, the only notable change was the increase in the number of political appointees in cabinet and ministries afforded to FUNCINPEC. At the same time, however, the total number of political posts was increased to accommodate the new appointees, so the relative balance of power between the partners did not change (though overall the total cost of patronage increased). Nor was it clear that any significant change had occurred within the CPP itself in terms of the balance of factions. Furthermore, had some imperceptible change occurred, there is no way to draw out what the implications would have been for the reforms. This is not to say that no political change occurred—the amount of change depends on how closely one looks—but to argue that there was no political change significant enough to explain the turn of events under analysis.

Nor did political principals change: the Prime Minister and the Minister of Economy and Finance remained in their posts. Within MEF, there were some promotions: the Secretary General (SG), who had been leading PFM reform development, was promoted to a Secretary of State (political appointee), while the Deputy SG, who was co-leading on the government side, was promoted to SG. The head of the TCAP Secretariat remained as head of the RCS. Personnel changes, therefore, do not offer a convincing argument about political incentives.

There were some incentives for politicians to improve service delivery, including pressure from the press and donors, yet there was no perceptible change in incentives over the period. Though citizens wanted better and more public services, Prime Minister Hun Sen, the longest serving leader in Asia, and his CPP remained in power since 1991.

Donor pressure for reform was present but remained largely unchanged (ODA remained stable since the late 1990s, but increased with the arrival of China in the early 2000s). The RGC was concerned about public service delivery and put in place numerous programs and initiatives to improve service delivery (see World Bank/ADB, 2003).

‘Political will’ thus seemed to be latent before 2003, but became active and observable from 2005-2007. The argument is that good public management can unlock political will in cases where it exists. Alternatively put: political will is necessary but not sufficient; good public management is also needed. More specifically, the development of the IFAPER caused successful implementation of the PFMRP. Therefore, to understand the success of the PFMRP, one must understand the development of the IFAPER.

Kingdon (1984/2005), though not often applied to developing country contexts in the literature, offers an analytical framework for understanding Cambodia’s PFM reforms that is far more convincing than the ‘political will’ explanation. Using Kingdon’s framework enables one to explain the trajectory of PFM reform as having to do with governmental policy agendas and public management capacities. Accordingly, before 2004 PFM reform was a low status issue on the governmental agenda. That is, PFM reform was receiving some attention from actors in the governmental system and donor community, but not steady high level attention. In 2004, however, the launch of the PFMRP by the Prime Minister signified that PFM reform was moved to the decision agenda (i.e., an issue up for active decision).

What shifted PFM reform to the decision agenda was, this paper argues, the coupling of a compelling problem definition (‘the budget was not credible’) with a policy solution. One of the factors that explains why a ‘condition’ changes to a ‘problem’ is getting participants to see the condition in a new way (Kingdon, 1984/2005: 121)—the IFAPER helped accomplish this by providing a compelling problem definition. The IFAPER was central to establishing a consensus-based problem definition, especially at the MEF management level. It gave management a clear understanding, provided a convincing storyline/trope, and made the problem tractable.

What is important to emphasize is that the policy solution consisted of: the incremental sequencing of reforms (‘platform approach’), the MBPI, and government and donor management mechanisms. Alternatively put, PFM reform changed from a condition to a problem when MEF became convinced that something *should* (problem definition) *and could* (solution design) be done about it.¹⁹

Moving PFM reform to the decision agenda was accomplished by policy entrepreneurs on both the government and donors sides. According to Kingdon (1984/2005: 214), policy entrepreneurs play the role of lobbyists for some position or outcome. Policy entrepreneurs in MEF (the SG, Deputy SG, and head of the RCS) and the World Bank saw the opportunity to work together to redefine the issues and put in place structures to manage in a new way. Through the accumulation of past experiences, both sides were acutely aware of the need to reform the way reform was approached. Political capital was also used by both sides to bring along more reluctant officials and donors. On the donor side, the World Bank exerted leadership to create a core, and later an extended,

¹⁹ The coupling of a compelling problem definition with a convincing policy solution constitutes another definition of what is often called ‘ownership’ by development practitioners.

donor PFM group. From the MEF point of view the external environment was supportive of the new approach: a growing core of donors supported the formulation of the problem definition and solution design with resources and by monitoring. Subsequently, donors took more of a back seat and put greater trust in MEF, relying more on monitoring instead of direct implementation through advisors and consultants. Government then took on more responsibility to manage the reforms and became more accountable for them, which was a natural extension of Government's entrepreneurship.

The third major question this paper can address is: what constitutes good public management in low income, post-conflict settings? Given weak national institutions and strong DP influence, the answer to this question is not necessarily straightforward. The argument is that the practices used during development of the IFAPER and the mechanisms and initiatives introduced thereafter constitute good public management in the low income country development context. This response implies an unorthodox approach in the sense that extraordinary management structures, such as the RC and the DPC, and hybrid initiatives, such as the MBPI, were core features of the good reform process management that drove success. Part of what could be controversial about this approach is that instead of attempting to rebuild weak institutions from scratch, the approach took the 'actually existing' institutions as given and worked to strengthen particularly weak aspects of institutional functioning. For example, the RC and RCS resolved the problem of weak internal coordination in MEF; the MBPI addressed the problem of weak incentives; the DPC solved the problem of uncoordinated donor support.

In terms of lessons learned, the core features of the approach all played important roles in solving problems. The joint government-donor analytical process led to a consensual problem definition and solution design. The reform vision effectively communicated the long term objectives while motivating short term reform actions. The consolidated action plan provided clear responsibilities by department, also specifying an estimated timeframe and resource requirements. The MBPI provided incentives that overcame, to some extent, capacity constraints. The formal coordination mechanisms for government and DPs allowed for effective communication and monitoring of progress, so problems could be identified and addressed relatively quickly. The analysis implies that the traditional donor intervention model in PFM (and perhaps public sector reforms more broadly) is too rushed and underfunded, at least in LICUS. In Cambodia, it was necessary to define collective problems and solutions, which took time and money—both in terms of initial investment costs and regular maintenance costs.

Lastly, this paper suggests that capacity is less static than typically thought. In low income, post-conflict countries institutional capacity is often thought of as a major constraint (along with political will). The interesting insight of the Cambodia case is that capacity development had very little to do with training and everything to do with incentives and management mechanisms and approaches. The usual thinking among development practitioners is that the level of capacity is exogenous in the short term and thus that capacity development is a long term process. This analysis shows, however, that capacity in Cambodia's MEF was transformed over a short (two year) period. The good news is that significant reforms took place over the first few years with the same political appointees, the same technical and line staff in place and in the same positions, and without any major training interventions. The only aspect that changed was the incentives—both for staff and management. The combination of pecuniary incentives

(through the MBPI) with the new, more effective management structures (RC and RCS) and techniques (CAP and quarterly monitoring reports) provided all the incentives necessary to unlock MEF's latent institutional capacity. This result profoundly challenges the way many development partners think about building capacity. Getting the incentives right goes a long way toward 'capacity development,' and is likely a prerequisite for long term capacity development.

BIBLIOGRAPHY

Adam Smith International. 2006. *External Advisory Panel Report*. Phnom Penh.

Barzelay, Michael, Francisco Gaetani, Juan Carlos Cortazar, and Guillermo Cejudo. 2003. "Research on Public Management Policy Change in the Latin American Region: A Conceptual Framework and Methodological Guide." *International Public Management Review* 4: 20-41.

Brooke, Peter. 2003. "Study of Measures Used to Address Weaknesses in Public Financial Management Systems in the Context of Budget Support." Ms.

International Monetary Fund. 2004. "Technical Assistance in Cambodia FY1998-2003." Independent Evaluation Office. Washington, DC.

_____. 2007. "Remarks on Macroeconomic Developments, Public Financial Management, and Private Sector Development." Delivered by the IMF Resident Representative on Behalf of Development Partners. Phnom Penh.

Kingdon, John W. 1984. *Agendas, Alternatives, and Public Policies*. Harper Collins Publishers.

PDP Australia. 2007. *External Advisory Panel Report*. Phnom Penh

Royal Government of Cambodia, Ministry of Economy and Finance. 2003. *Technical Cooperation Assistance Program Annual Progress Report*. Phnom Penh.

_____. 2004a. "Keynote Address by Samdech Hun Sen, Prime Minister. At the Formal Launch of the Public Financial Management Reform Program." Phnom Penh.

_____. 2004b. *Public Financial Management Reform Program: Strengthening Governance through Enhanced Public Financial Management*. Phnom Penh.

_____. 2005-2007. *Annual and Quarterly Progress Reports*. Phnom Penh.

Schneider, Ben Ross and Blanca Heredia, eds. 2003. *Reinventing Leviathan: The Politics of Administrative Reform in Developing Countries*. Lynne Rienner: Boulder, Colorado.

Smoke, Paul and Robert R. Taliercio, Jr. 2007. "Aid, Public Finance, and Accountability: Cambodian Dilemmas," in James K. Boyce and Madalene O'Donnell, eds. *Peace and the Public Purse: Economic Policies for Postwar Statebuilding*. Lynne Rienner: Boulder, Colorado.

Taliercio, Robert R. 2009. "Cambodia's Merit-Based Pay Initiative: Building Capacity by Strengthening Incentives." Ms.

World Bank and Asian Development Bank. 2003. *Integrated Fiduciary Assessment and Public Expenditure Review: Enhancing Service Delivery through Improved Resource Allocation and Institutional Reform*. Washington, D.C.

World Bank and International Monetary Fund. 2003. "Bank/Fund Collaboration on Public Expenditure Issues."

World Bank et al. 2004a. "Third Joint PFM Aide Memoire, July 23, 2004."

_____. 2004b. *Cambodia: Country Procurement Assessment Report*. Phnom Penh.

_____. 2005. *Cambodia: Country Assistance Strategy of the World Bank Group 2005-2008*. Phnom Penh.

_____. 2006. *Cambodia: Halving poverty by 2015? Poverty Assessment 2006*. Phnom Penh.

ABOUT IPMR

IPMR	<p>The International Public Management Review (IPMR) is the electronic journal of the International Public Management Network (IPMN). All work published in IPMR is double blind reviewed according to standard academic journal procedures.</p> <p>The purpose of the International Public Management Review is to publish manuscripts reporting original, creative research in the field of public management. Theoretical, empirical and applied work including case studies of individual nations and governments, and comparative studies are given equal weight for publication consideration.</p>
IPMN	<p>The mission of the International Public Management Network is to provide a forum for sharing ideas, concepts and results of research and practice in the field of public management, and to stimulate critical thinking about alternative approaches to problem solving and decision making in the public sector.</p> <p>IPMN includes over 600 members representing sixty different countries and has a goal of expanding membership to include representatives from as many nations as possible. IPMN is a voluntary non-profit network and membership is free.</p>
Websites	<p>IPMR: http://www.ipmr.net/ (download of articles is free of charge)</p> <p>IPMN: http://www.inpuma.net/</p>