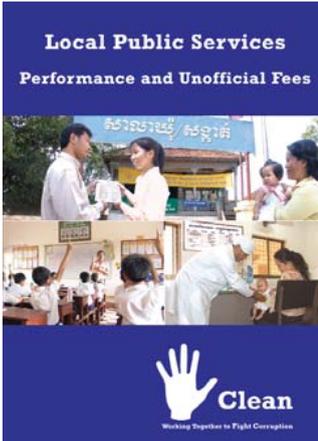


November 2006



Local Public Services Performance and Unofficial Fees

Public services are crucial for the Government to implement its strategies and to provide the appropriate services to its citizens. Providing for the basic needs of local communities, the local public service mechanism needs to be enforced to enhance local governance and promote social and economic welfare for the population.

In the context of promoting good governance, corruption and systemic bribery in public services have been repeatedly identified as major constraints on Cambodia's development process. Government, donors and civil society have made concerted efforts to search for optimal strategies to improve Cambodia's current situation. As a result, some Government institutional reforms have been noticeably successful, especially the decentralization and deconcentration reforms.

This exploratory study was conducted by the Economic Institute of Cambodia (EIC) under the auspices of DANIDA and PACT Cambodia with the objective of finding out where commune level service provision directly affects households' livelihoods and the current reality of unofficial fees in order to find the best opportunities for institutional reforms.

The study focused on three specific public services provided at the commune level: the Commune office, primary schooling and health center services. These three local services are

generally considered as having the most frequent interaction and influence on the population's daily lives.

This policy brief will provide an overview of the research findings and highlight the nature, causes and impacts of unofficial fees on the livelihoods of households in three categories of commune: provincial, district, and rural communes. Moreover, a set of practical recommendations on how to curb unofficial fees in the three public services will also be presented.

Awareness of Unofficial Fees

The level of people's awareness of service fees varied from sector to sector as the three services investigated differ in terms of their fee structure.

While primary schooling is in principle free, 41 percent of respondents were confused about whether the fees they paid for primary schooling were official or unofficial.

For the other two services, official fees are legally fixed for some commune services whereas all health center services have official fees. The survey shows that users of health center services, where all fees are publicly published, are better informed than those of Commune office services, where official fees are generally not published.

Lack of information on official service fees obviously leads to confusion amongst local service users and

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thus provides for an environment conducive to unofficial fee payments. However, the survey findings show that people's awareness of official fees is only a necessary, not a sufficient condition to avoid requests for and payment of unofficial fees.

Reasons for Unofficial Fees

Reasons to pay unofficial fees do not vary much between the three studied services. For Commune office services, interviewees acknowledged that in most cases people of their own accord offer additional fees for specific reasons: expressing thanks to the commune officials for services provided, building good relations for future services, and quickening the service process. In some cases, however, people paid unofficial fees simply because commune officials asked for a payment.

These reasons are similar to the other two local services. Although, for primary schooling, in some serious cases, teachers punished pupils who do not pay unofficial fees. The punishments ranged from cursing them, obtaining low grades, and not allowing the pupil to be upgraded at the end of the year.

The overall issue for unofficial payments in each service was the low salaries of local public officials. When asked whether officials would stop taking additional fees if they received adequate salaries, the answers presented mixed results both among the households group and Commune member group.

People who answered 'yes' considered taking unofficial fees as a last resort for officials whose salaries are too low to support their family. By contrast, people who answered 'no' justified their response with the belief that taking unofficial fees had already become a habit of government officials.

Extent of Unofficial Fees and Its Implications

Based on EIC data, the

annual amount of unofficial fees paid to the communal administration in Cambodia is about US\$5-6 million in addition to the current communal budget. This amounts to less than 10 percent of the total annual amount of unofficial fees paid by households to all public services at all levels which reached around US\$66 million in 2005, based on the CSD corruption survey data.

At the macro level, the amount of unofficial fees paid to the commune offices nationwide is small, representing less than 1 percent of the total national budget, or just about 0.1 percent of the country's GDP. But the impact of these unofficial fees is considerable for poor people.

From the survey's findings, unofficial fees exist within the public primary education, mostly occurring in Phnom Penh and provincial towns. Unofficial payments in rural primary schools seem not to occur for three main reasons. Firstly, rural families are generally poor and cannot afford unofficial fees. Secondly, rural teachers are also farmers, providing them with additional income and food. Thirdly, the relationship between teachers and people in rural areas seems to be stronger than in urban areas due to the small population size.

In contrast, unofficial fees

are not clearly visible in health centers. Reasons for this are the small scale in both operation and services fees that are generally published in most of the health centers. In addition, people use health center services because they cannot afford to go to a peripheral hospital or a private clinic.

Unofficial Fees as Salary Supplementation

Acknowledged by the majority of interviewees, the primary reason for unofficial fees is the basic needs of public service officials. The unofficial payments thus provide important additional amounts to the current staff salaries, especially for the commune officials and primary school teachers in urban areas.

With the total estimated unofficial fees paid nationwide, an equal amount of about US\$36 per month could be added to the current salaries of commune officials, which is about US\$18 per month. Based on the actual amount of unofficial fees of each individual commune, the additional amount varies greatly from urban to rural areas. In practice, however, the amount of unofficial money is not generally subject to an equal allocation among all commune staff, mostly going to the commune clerk and commune chief who possess main administrative authority.

Estimated Annual Budget per Commune in 2006 (Average in US\$)

	Phnom Penh	Provincial Town	District Town	Rural Commune
Transfer from the National Budget	11,700	11,700	11,700	11,700
<i>Commune Staff Salary</i>	<i>1,780</i>	<i>1,780</i>	<i>1,780</i>	<i>1,780</i>
<i>Other Operational Cost</i>	<i>1,820</i>	<i>1,820</i>	<i>1,820</i>	<i>1,820</i>
<i>Local Development</i>	<i>8,100</i>	<i>8,100</i>	<i>8,100</i>	<i>8,100</i>
Paid by Local Households	9,100	6,210	3,520	2,050
<i>Local Development Funds</i>	<i>660</i>	<i>410</i>	<i>250</i>	<i>250</i>
<i>Official Fees</i>	<i>440</i>	<i>300</i>	<i>170</i>	<i>100</i>
<i>Unofficial Fees(*)</i>	<i>8,000</i>	<i>5,500</i>	<i>3,100</i>	<i>1,700</i>
Total	20,800	17,910	15,220	13,750
% of Unofficial Fees on Total Budget	38%	31%	20%	12%

Source: EIC's Survey, July-August 2006 & Seila Program

(*) Excluding land transaction fees

In the case of unofficial fees paid in primary schools in Phnom Penh, an average amount of about US\$46 could be added to the monthly salaries of every teacher, which currently is around US\$30. In addition to that, each primary school teacher can generally earn around US\$76 per month from supplementary courses. But, the findings also show that only 33 percent of urban teachers and 9 percent of rural teachers are able to provide supplementary courses to complement their official salary.

Unofficial Fees and the Communal Budget

As a decentralized government, the commune is legally entitled to three main sources of funds: transfer from the central government, own-sources revenue and local contribution from people. However, the current commune financial system greatly depends on funds transferred from the central government while the other two sources account for small amounts due to legal and practical reasons.

For the year 2006, the national transfer from the central government to the 1,621 communes amounted to around US\$19 million. Of this amount, up to one-third is for administrative costs and the remainder is for local development. The average amount of funds transferred from the central government to each commune averaged approximately US\$11,700.

On average, the annual official fees collected by each commune range from about US\$440 in Phnom Penh, US\$300 in provincial towns, US\$170 in district towns and US\$100 in rural areas. Whereas, the average share of local contribution funds in each development project generally represents around 8 percent for the commune in Phnom Penh, 5 percent in provincial towns and 3 percent in both district towns and rural areas.

Aside from all of these offi-

cial funds, the unofficial fees represent a significant additional share if included in the budget of each commune. The share of unofficial fees is generally high at the Phnom Penh commune (38 percent) and respectively declines in provincial towns (31 percent), district towns (20 percent) and rural areas (12 percent).

Unofficial Fees and Households' Livelihoods

The survey's findings in general did not find that unofficial fees had a significant impact on households' livelihoods. On average, every household pays about 9,000 Riel (around US\$2.25) annually to the Commune office as unofficial fees. Compared to their annual expenditure, the average share of unofficial fees paid by each household varies from rural to urban areas, ranging from 0.2 percent in remote rural areas and 0.5 percent in provincial towns.

However, this unofficial payment practice constitutes a great burden for people in terms of accountability and transparency of local service delivery.

Next Steps towards Efficient Local Services: Suggestions by Stakeholders

For all local public services

to be delivered efficiently, increasing staff incomes to a decent level is seen as a precondition for other reform measures to be effectively implemented.

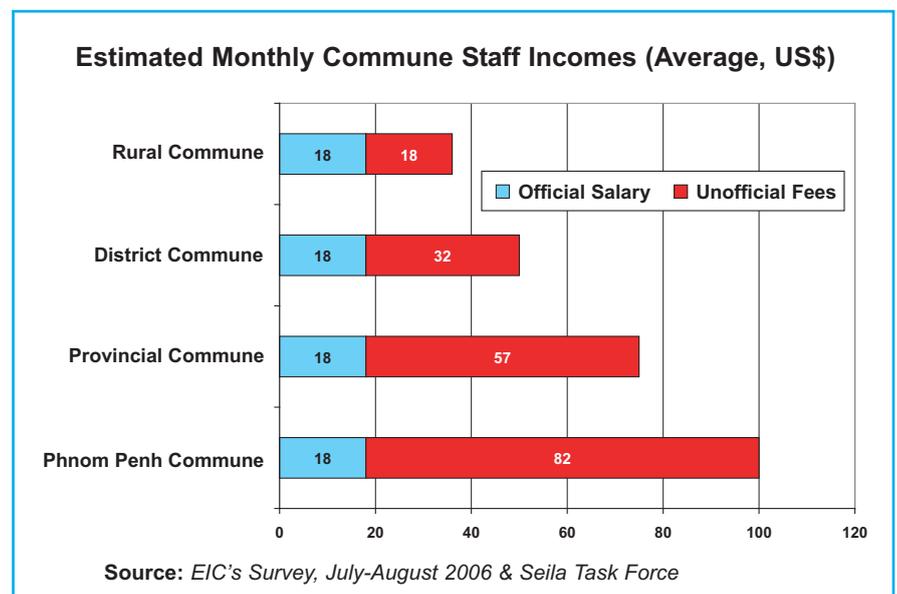
Formalizing Unofficial Fees and Increasing Staff Salaries

Concerning the increase of commune staff salaries, suggestions raised were oriented towards three main options: formalizing unofficial fees, raising supporting funds from the national transfer and enhancing commune own-source revenues through expanded local service delivery.

Formalizing unofficial fees was considered an important choice not only in order to provide additional contributions to the commune budget but also to allow the payment process and management to be more transparent. Agreeing with this, commune officials seemed to express strong concern over whether the Government would allow the use of these fees to increase their salary.

Still, the amount to be formalized will not be sufficient enough to support the basic needs of all staff, especially for the majority of rural communes where the frequency of services provided is generally low.

In the context of the



upcoming organic law on democratic development, a number of municipal and provincial communes believed that their commune could stand without national transfers from the central government if they were authorized to collect a number of other user fees and local taxes. By contrast, the majority of rural communes still did not believe that they can survive autonomously.

The source of communal revenue mentioned by officials as fit for local delivery mainly relate to the economic activities around the local markets of their locality, road taxes on motorcycles, tax on unused land and other taxes on small business operators. For some services, the commune offices believe they can collect these local taxes more effectively than the higher authorities currently do as they possess more information on who owns what in their community.

Regarding primary school and health center services, raising salaries to an adequate level would restrain teachers and health center staff from taking unofficial fees. Moreover, this would also be a key motivating factor for them to deliver better services to the community.

Raising People's Awareness and Strengthening the Code of Ethics

Once staff salary and local budget becomes adequate, raising people's awareness of official fees and strengthening the code of ethics of local public officials will be applicable.

Having official service fees publicly published was highly recommended in all FGDs and qualitative interviews with local key informants. To this end, 'information notice boards' is suggested to be established to publish the official service fees at the accessible visual reach of service users.

To eliminate or substantially reduce unofficial fees, a code of ethics, administrative regulations and especially disciplinary measures were suggested to be adequately estab-

lished and strictly imposed and implemented.

According to concerned local NGOs, the establishment of any code of conduct or regulations should particularly focus on how to change the habit and mindset of state officials from behaving as a governing authority to acting as public service providers based on client-oriented perspectives.

For primary schooling and health center services, adequate policies, equipment and staff capacity building were recommended by all stakeholders. Particularly, basic health staff should receive suitable professional training and be constantly trained to update their knowledge and skills to meet the increasing needs of the community.

Policy Recommendations and Conclusion

For all three services, closer involvement and more responsibility for the Commune can be expected to improve the quality of services. However, primary education and public health require technical expertise that is currently not available at the Commune level.

As the findings show, improving local service delivery without unofficial payments is possi-

ble, if the communes have a relevant budget to support the livelihoods of their staff and promote local development. At the macro level, the unofficial fees are small, representing less than 1 percent of the national budget, but the impacts on the poor in terms of service delivery effectiveness are considerable.

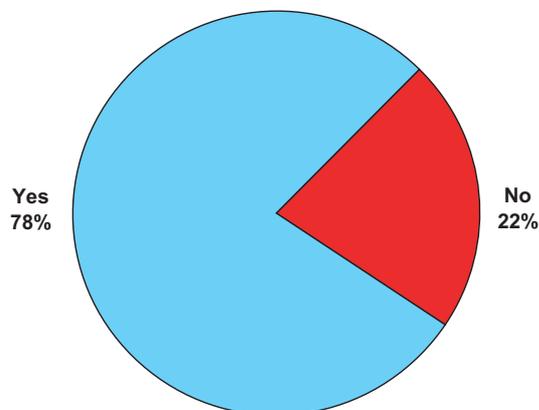
Nevertheless, formalizing unofficial fees is not sufficient to provide staff with livable wages. Greater financial autonomy for the commune in terms of power and capacity to collect local taxes are needed. These roles should be precisely defined in the D&D organic law.

A well-designed policy experiment is highly recommended to pilot the formalization of administrative service fees and the transfer of certain tax and non-tax revenue collection to the Commune level.

However a more comprehensive study is required to be able to design a pilot in such a way that it can generate the kind of practical knowledge that is necessary for up-scaling its innovations to progressively larger numbers of Communes.

For a pilot to be well-designed it needs to be able to generate sufficient relevant knowledge about what works, under what condition, for policy makers to be able to make an informed next move.

Acceptance of Households to Pay the Formalized Unofficial Fees



Source: EIC's Survey, July-August 2006