

TECHNICAL ASSISTANCE IN CAMBODIA, FY1998–2003²

I. INTRODUCTION

1. Cambodia has been one of the main recipients of IMF Technical Assistance (TA) over the past decade. Between FY1998 and FY2003, the country averaged more than four person-years of TA a year, and was the largest beneficiary of any country in FY2003. Furthermore, Cambodia has been one of the few countries where TA was delivered under the umbrella of the Technical Cooperation Assistance Program (TCAP) between FY2001 and FY2003. The content of the Cambodia TCAP was designed jointly by the authorities, other donors, and the IMF and provided a comprehensive program of TA, covering key areas of reform related to macroeconomic policy, including fiscal and banking sectors, and statistics. As a result, Cambodia offers a good opportunity to draw some lessons on the factors that influence the effectiveness and impact of TA. In particular there are two questions on which this case study focuses: What are the potential improvements, if any, that can be made in the way the IMF provides its TA, and what are the country-specific circumstances that make a high impact of TA more likely. As a result, this case study is organized in three main sections. First, a background section in which a brief description of the major TA activities and a broad assessment of their impact is provided. This description concentrates on the TCAP years, 2001–03, because the amount of TA received over this period was particularly intense and more evidence is available. A second section explores country-specific factors that may affect the impact of TA. And a third section analyzes how the IMF could improve its delivery of TA at successive stages of its involvement

2. It is important to emphasize that, although this report will mostly concentrate on those aspects that can be improved, there is an almost universal recognition in Cambodia of the quality and relevance of the IMF's TA. Country authorities, along with international donors, repeatedly praised the outstanding technical capacity of most IMF TA experts, and stressed the relevance of their contributions to addressing Cambodia's capacity bottlenecks. It is in this context that any comment or conclusion should be considered.

II. BACKGROUND

3. Ten years after the signing of the Paris Peace Accord in 1991, Cambodia was still facing major economic challenges. Tax revenues were very low, the banking system was fragile and a fundamental civil and administrative reform was necessary to improve governance.³ In this context, IMF TA was mostly provided in four areas under the TCAP:

² Based on interviews conducted by IEO with government officials and multilateral and bilateral TA providers in Phnom Penh, Cambodia between June 8 and 18, 2004 and interviews with Bank and Fund staff in Washington, DC as well as internal Fund memoranda and communications and World Bank and IMF staff reports.

³ IMF, "Cambodia Article IV" (2000).

fiscal reform, banking reform, statistics, and legal system.⁴ In all of these areas the TCAP delineated the specific TA activities to be pursued by experts and their expected outputs. Furthermore, the TCAP defined the TA delivery modality (i.e., long-term, short-term, peripatetic) associated with each activity, along with the duration and timing of their mandates. As a result, the Terms of Reference (TORs) of most experts were essentially a reflection of these guidelines.

4. In the fiscal area, TA aimed at (i) strengthening tax policy and administration including human resources and improving the design of the tax system; (ii) strengthening customs administration in order to maximize the return from pre-shipment inspection, enhance enforcement capabilities, and modernize and streamline procedures; and (iii) strengthening budget management to improve the quality of budget formulation and execution, along with the design and implementation of effective internal and external audits. These objectives were pursued mostly by three long-term resident experts in budget management, customs administration, and tax administration. These three experts accounted for over half of total TA delivered under the TCAP.

5. The overall objective of TA in banking sector reform was to help create a robust and efficient banking system through bank relicensing, strengthening regulations, and improving bank supervision. TA in economic statistics was meant to strengthen the capacity to produce statistics for economic policy making and private investment planning by improving national accounts, price and foreign trade data, and balance of payments, government finance, and money and banking statistics. The objective of TA in the legal area was to improve the financial sector legal framework. The largest volume of TA was provided by FAD followed by MFD, STA and LEG. Long-term resident experts were the main vehicle in providing TA. Legal TA was mostly provided through short-term missions (Table 1).

6. Three years after the start of the TCAP, the impact of TA in these different areas varies considerably. The banking sector reform has been largely deemed a success. The relicensing program implemented by the National Bank of Cambodia (NBC) revamped the banking system by reducing the number of banks from 31 to 17, helping to restore the banking sector soundness.⁵ In response, public confidence in the banking system appears to be gradually improving, reflected in a 22 per cent increase in the deposit base during 2002 and further gains in 2003.⁶ Furthermore, loan spreads narrowed in 2003 as competition in the

⁴ For a more thorough discussion of the TCAP objectives see UNDP, “Program of the Government of Cambodia: Program Support Document” (2001).

⁵ A description of the banking relicensing process can be found in: De Zamaroczy and Sa, “Economic Policy in a Highly Dollarized Economy” (2003).

⁶ See IMF, “Article IV” (2002), and Frydl, Edward, Juan Foxley, and Eddie Herron, “Banking Sector and Accounting Issues and Management of Foreign Exchange Reserves” (2003).

market appears to be increasing. On the supervisory front, two teams of inspectors have been trained, one for on-site inspections, and a second to oversee the implementation and compliance with a new Chart of Accounts (COA). Full compliance with the new COA is expected by the end of 2004, and the strengthening of the regulation has forced commercial banks to increase their capital.⁷ One of the issues that is still pending, is the privatization of the Foreign Trade Bank (FTB). The control of this state-owned bank was transferred from the NBC to the Ministry of Economy and Finance (MEF), privatization is progressing although it would appear not all of the advice provided by the IMF has been followed.

Table 1. TA in Cambodia
(Total days) 1/

| Department | Description | FY1998 | FY1999 | FY2000 | FY2001 | FY2002 | FY2003 |
|------------|-----------------------------------|------------|------------|------------|------------|-------------|-------------|
| MFD | Accounting | 42 | - | - | - | - | 10 |
| | Bank Restructuring & Supervision | 22 | - | - | 172 | 271 | 317 |
| | Foreign Exchange | - | - | - | - | - | 30 |
| | Monetary Operations & Policy | 32 | 261 | 260 | 178 | - | - |
| | Cash Management | - | - | - | - | - | - |
| | Multiple Subject | - | - | 60 | - | 55 | 65 |
| | Total | | 96 | 261 | 320 | 350 | 326 |
| FAD | Budget Treasury | - | - | - | - | 242 | 264 |
| | Multi-topic Fiscal | - | - | - | 4 | 13 | - |
| | Public Expenditure Management | - | - | - | 138 | 7 | 5 |
| | Tax and Customs Administration | 67 | - | 85 | 228 | 553 | 745 |
| | Technical Cooperation Action Plan | - | - | 128 | 23 | - | - |
| | Multiple Subject | 81 | - | - | - | - | 47 |
| | Total | | 148 | - | 213 | 393 | 815 |
| STA | Balance of Payments Statistics | 7 | - | 20 | 39 | 13 | 183 |
| | Bank Supervision and Regulation | - | - | - | 7 | - | - |
| | Multisector Statistics | 9 | 22 | 14 | 37 | 183 | 275 |
| | Total | 16 | 22 | 34 | 83 | 196 | 458 |
| LEG | FSC | - | - | - | - | 5 | 20 |
| | Multiple Subject | - | - | 14 | 29 | 39 | 31 |
| | Other | - | - | 7 | 29 | 30 | 18 |
| | Payments and Settlements | - | - | - | - | 10 | - |
| | Total | - | - | 21 | 58 | 84 | 69 |
| | Grand Total | 260 | 283 | 588 | 883 | 1420 | 2036 |

Sources: OTM and TIMS.

1/ TA delivered in the field only. For short-term experts (less than six months in the field) and missions, the data includes weekend days. For long-term experts weekend days are excluded.

⁷ Government of Cambodia, "Cambodia: Technical Cooperation Assistance Program Progress Report" (2003).

7. In sum, although there are clear challenges ahead and some shortcomings, it is fair to argue that TA in the area of banking reform has supported the strengthening of the banking system and laid the foundations for a greater role of the financial system in fostering economic growth in Cambodia. The impact of TA in banking reform has been mostly satisfactory.

8. Reform in economic statistics has also shown significant progress.⁸ Nowadays, Cambodia satisfies most of the requirements of the “Data Dimension” of the GDDS. The availability and quality of data required for compiling national accounts, price statistics, balance of payments, and monetary statistics, and socio-economic indicators have been improved. The National Institute of Statistics (NIS) expanded price data collection to five cities and created a new consumer price index (CPI) linking the 2000 and 1994 series. In addition, the methodologies used in compiling national accounts, and price, balance of payments, and monetary statistics have been reviewed and strengthened. Also the Statistical Yearbook has been substantially expanded. The authorities are already autonomous in the generation of most of these improved and expanded series; therefore these positive changes are expected to be sustained. However there are persistent problems hampering further progress in other institutions. In some cases, the transfer of knowledge has been slow because staff in the MEF works less than usual hours; this problem has been particularly acute in the production of Government Finance Statistics (GFS). Another problem is the lack of funding. With the exception of the NBC there are no budget allocations for the necessary regular statistical data collections; data collections for national accounts and prices were mostly funded by the Asian Development Bank (ADB).

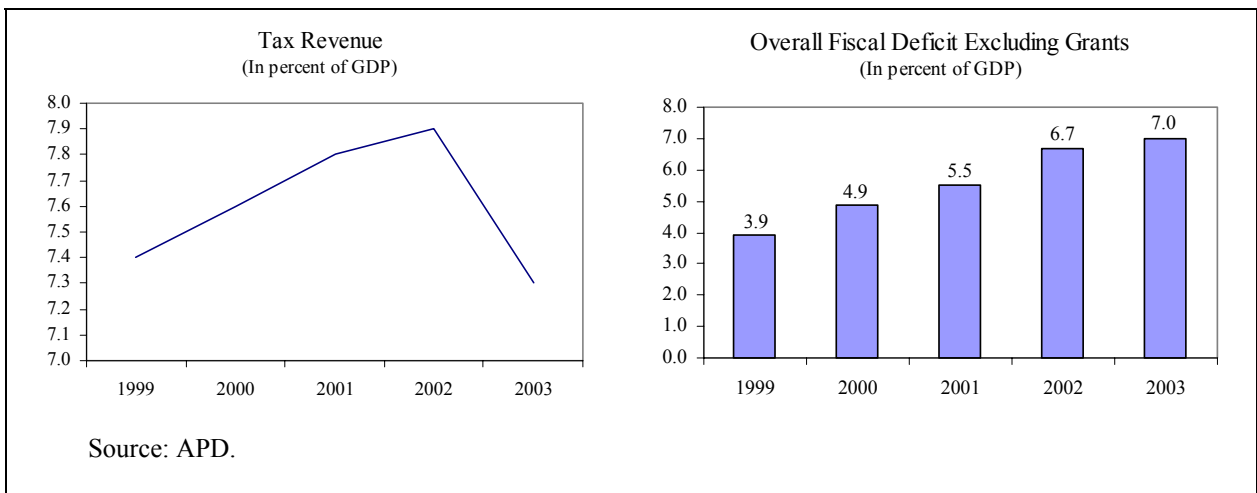
9. Overall, despite significant budgetary and human resource constraints, TA in economic statistics reform has helped to improve the number and quality of statistical series significantly and effectively transferred knowledge to local authorities so to make this progress self-sustaining. Just as in the case of banking reform, although there are still important challenges ahead, TA in economic statistics has had clear positive impact.

10. It is in the area of fiscal sector reform that the impact of TA has been the weakest, despite significant progress made in strengthening the tax and customs administration in terms of structure and procedure. A perennial budgetary problem faced by Cambodia is its inadequate tax effort. In 2003, total tax revenue as percentage of GDP amounted to only 7.3 percent, one of the lowest in the world and a reduction from 7.8 percent in 2001, despite a constant economic expansion (Figure 1). This performance reflected a decline in VAT and trade tax revenue, despite TA efforts to strengthen customs and tax administration and increases in selected excises. Administrative constraints are undoubtedly contributing to these results. Governance problems and corruption have impeded a full enforcement of tax laws and have eroded the tax base through nontransparent ad-hoc exemptions granted to the

⁸ See Government of Cambodia (2003), and UNCTAD, “Evaluation Report on TCAP on Strengthening Economic and Financial Management” (2004).

corporate sector.⁹ In customs, TA has run into similar difficulties. Efforts to reform and streamline operations continue to suffer from the negative effects of very low staff compensation, and their continuing reliance on “unofficial fees.” Smuggling continues to be very serious resulting in significant fiscal losses.¹⁰ The adverse impact of these problems continues to dwarf the positive effects of some efficiency gains in administration (e.g., a reduction in the number of days needed to process a container through customs). Fiscal difficulties are not only restricted to the revenue front. Progress in the budget management area has been slow: budget execution is characterized by endemic cash shortages, delays in spending approvals, and the accumulation of payment arrears.¹¹

Figure 1. Fiscal Performance



These contrasting experiences between TA in banking and statistics relative to TA in the fiscal area, offer a good opportunity to draw some lessons on what are the factors that affect TA effectiveness. This is addressed in the next section, where we explore the main sources of the diverging impact of TA efforts in Cambodia. We look at two set of factors. First, a set of country factors that are beyond the direct control of the IMF. In this group the lack of political will and the lack of a functional civil service are emphasized. Second, a group of factors that are under the direct control of the IMF—including diagnosis, coordination, modes of delivery, and follow-up.

⁹ IMF, “Cambodia, Ex Post Assessment of Longer-Term Program Engagement” (2004).

¹⁰ See Government of Cambodia (2003).

¹¹ IMF, “Fiscal Strategy Brief, Fiscal Affairs Department” (2003).

III. COUNTRY FACTORS INFLUENCING THE EFFECTIVENESS OF TA

11. Capacity building efforts are strongly influenced by local institutional and political variables. Whether TA has a significant impact or not is highly dependent on the political will of local authorities to pursue recommendations, and the ability of local officials to absorb and implement them. As will be shown, if the authorities are not strongly committed to TA recommendations, or if the local civil service lacks a minimum absorptive capacity, the impact of TA is likely to be very limited. In contrast, if these two preconditions are present the impact of TA is usually greatly enhanced.

A. Political Will and Commitment to Implementation

12. Political will is the indispensable requisite for successful TA. Without it, most recommendations have a limited impact. A good example is the difficulties encountered in the customs administration reform in recent years. Efforts to reform this department are continually hampered by generalized corruption and pervasive smuggling. Attempts to streamline customs operations are diluted by the continuous reliance of staff on “unofficial fees” charged for processing documents and clearance of cargo. This form of corruption creates a burden on trade and is a big impediment to streamlining customs procedures. Smuggling causes significant revenue losses, and creates unfair competition for legitimate businesses that pay their duties. Unfortunately, efforts to address this problem are confronted by powerful interests and highly organized smuggling groups.¹² Coordinated efforts and top-level commitment are required to stop this illegal activity, before TA can have a substantial impact.¹³

13. A contrasting case was the successful relicensing of commercial banks and the restoration of banking sector soundness, which took advantage of the TA provided in this area. In spite of being a politically sensitive issue, there are today only 17 banks operating in Cambodia compared with more than 30 in the past. This relicensing took place without losing the confidence of the public; deposits did not decrease during the process. Overall, the soundness of the banking sector has been clearly enhanced; the 17 surviving banks increased their working capital and complied with a new chart of accounts. At the core of this successful reform was the leadership exercised by the head of the NBC, who constantly lobbied in favor of a relicensing process at the highest level despite powerful opposing interests. Moreover, directors of the NBC were constantly in touch with legislators and key

¹² Government of Cambodia (2003).

¹³ As the case of Cambodia suggests the risk of corruption in customs may be particular high in countries with low pay to public servants, a high ratio of imports to GDP, and a high reliance on tariffs as a source of public revenues. In Cambodia, the main source of economic growth over the last years has been the expansion of external trade, and the most important source of public revenues has been customs.

political figures trying to state the case for reform. The political commitment of the top officials at the NBC was the key for the successful relicensing of banks.

14. The contrasting experiences of the customs reform and the relicensing of commercial banks demonstrate the significant relevance of political determination in enhancing the impact of TA. A strong commitment by the authorities to implement TA recommendations is a necessary and key condition for any successful TA. A clear lesson that can be drawn from this experience is that the IMF should carefully analyze the political commitment of the authorities before committing major resources, and should look ideally at past implementation record. In this context, it is important to maintain a detailed implementation record of the TA experience in different countries in order to be able to make an informed cross country decision when resources are allocated. This underlines the need to develop an effective monitoring system to assess why past TA recommendations have and have not been implemented.

15. When authorities are not fully committed to the implementation of TA recommendations, TA experts and their headquarters counterparts should report such developments forcefully, otherwise the ability to take remedial measures is hampered and future decisions may be based on misleading information. It is in the best interest of TA efforts to be as transparent as possible, when TA is being hampered by poorly cooperative, or even openly obstructive authorities.

B. The Importance of a Well-Functioning Civil Service: The Case of Multisector Statistics

16. The important role the quality of public institutions plays in achieving good economic policies is increasingly recognized. An effective pool of capable public officials who adhere to norms of behavior is a necessary condition to foster a policy environment conducive to economic growth. Not surprisingly, a good amount of research has been done to understand what ingredients produce a good civil service, among which three are consistently mentioned: meritocratic recruitment, competitive salaries, and internal promotion and career stability.¹⁴

17. Most of Cambodia's bureaucracy lacks any of these characteristics. With the clear exception of the NBC, civil servants are paid very low salaries without clear career prospects, posts are granted according to political considerations, and political rivalries are constantly reflected in bitter confrontations among departments even within the same ministry. As a result, most public officials are poorly skilled individuals who take on one or two additional jobs to complement their income, turnover is extremely high, and there are enormous

¹⁴ See Evans Peter, Rauch James, "Bureaucratic Structure and Bureaucratic performance in Less Developed Countries" (2000).

difficulties in retaining qualified officials. Furthermore, the few skilled public officials are overstretched and struggle to keep up with their multiple tasks.

18. The impact of TA recommendations has been constantly hampered by these deficiencies. IMF experts rarely have full-time counterparts, which inevitably slows the transfer of knowledge, and even in those cases where there are such counterparts their level of skills is usually low. Furthermore, when counterparts have been successfully trained, they frequently migrate to the private sector looking for better salaries. As a result of this turnover, the process of capacity building has been slow. Yet the Cambodian civil service is a heterogeneous body and the stark differences in its ability to absorb TA, should be acknowledged. Moreover, these differences offer a good natural experiment to study the impact of the quality of the civil service on the effectiveness of TA.

19. The variation of the civil service's quality and its impact on TA effectiveness is nicely exemplified by comparing the TA advice given to three different Cambodian agencies: the National Bank of Cambodia (NBC), the Ministry of Economy and Finance (MEF), and the National Institute of Statistics (NIS).¹⁵ Among these three clearly the NBC has the best qualified staff, and the level of institutionalization is outstanding by Cambodian standards. Salaries are paid on time and are significantly higher than in the rest of the public sector,¹⁶ with well established career paths and a known system of rewards and possibilities to further the staff's education. As a result, turnover is very low and officials work full time with a higher average level of skills than in the rest of the public sector. Not surprisingly the impact of TA has been larger than elsewhere. Significant progress has been made in improving balance of payments data sources, compilation methods, and consistency with the fifth edition of the IMF's Balance of Payments Manual. In addition, a new chart of accounts that conforms to international standards for commercial banks has been introduced, along with a new methodology for the compilation of monetary and financial statistics.¹⁷ In short, the higher quality of the NBC staff has been associated with the greater impact of TA in these areas.

20. In contrast, we find the MEF at the other end of the spectrum. In this ministry, salaries are extremely low, and appointments are driven by political motivations. Bitter political rivalries within the ministry significantly undermine cooperation and coordination

¹⁵ These advices were given by the same long-term expert thus assuring us that potential variations in impact of TA were not due to different experts, albeit the expert acknowledged that his stronger areas of expertise were in National Accounts and Balance of Payment statistics.

¹⁶ The evidence for this difference is anecdotal.

¹⁷ Government of Cambodia (2003).

among officials.¹⁸ Hence, turnover is very high, skilled officials are scarce, and TA experts rarely have full-time counterparts. Not surprisingly, assistance to improve Government Finance Statistics (GFS) has been significantly hampered by the lack of full-time counterparts at the MEF, especially in the area of government debt statistics.¹⁹

21. An intermediate case is found in the NIS. Just as in the MEF, this institution is characterized by very low salaries with severe difficulties in retaining skilled officials. There is, however, one feature that differentiates this bureaucracy: it is less politicized. In contrast to the MEF, this institution does not administer significant resources and thus is not viewed as a valuable prize by the different political groups. This ministry has a very modest budget but in exchange seems to enjoy a good degree of political freedom. In other words, officials at the NIS struggle to obtain resources, but they are relatively free in the way they conduct their business. As a result, the impact of TA in this ministry has been bigger than in the MEF. The availability and quality of data sources for national accounts, balance of payments, and a range of other socio-economic statistics released in the Statistics Yearbook has improved.²⁰ Also, the NIS has become essentially self-sustaining in the production of data on national accounts and the consumer price index.

22. In sum, the impact of TA in the overall area of statistics has been influenced by the quality and degree of institutionalization of the corresponding bureaucracy. The NBC, as the best functioning institution, was the most successful in implementing the recommendations of TA, whereas TA in the MEF had a lower impact largely because its poor level of institutionalization. The NIS was the intermediate case.²¹ The major lesson that we can draw from this experience is that for TA to have a significant and lasting impact it is necessary to have a civil service with some minimum degree of stability and competitive salaries.

IV. FACTORS UNDER THE CONTROL OF THE IMF

23. Determination to implement reforms and the quality of civil service are country specific variables that are not under the control of the IMF. We now concentrate our attention on those factors that can be controlled by the IMF and may impact the effectiveness of TA at all stages—the quality of diagnosis, coordination, implementation, delivery, and follow-up.

¹⁸ As explained by TA experts, it is not rare that the different head of departments of MEF refuse to meet each other due to political rivalries even when this meeting is arranged by the TA expert.

¹⁹ Government of Cambodia (2003).

²⁰ See Government of Cambodia (2003).

²¹ The negative impact of a poorly functioning institution is not limited to TA in statistics. For instance, TA in the area of budget execution and treasury was also significantly affected by the lack of qualified and full-time counterparts.

A. Diagnosis and Coordination Under the TCAP: The Case of TA in the Area of Budget Execution and Treasury

24. The TCAP was the chosen instrument in Cambodia to detect capacity bottlenecks and establish an action plan to address these in a holistic and coordinated way. Four years down the road it receives mixed marks. On the one hand, all TA players—from authorities to donors—recognize the TCAP as a valuable building block that brought a medium-term framework to the provision of TA, and tried to coordinate all donors (Box 1). On the other hand, the TCAP was simply an amalgamation of separate initiatives that did not amount to an integrated strategy of capacity building, the implementation of its different components remained largely compartmentalized. As a result, capacity bottlenecks were frequently addressed without substantive coordination among donors.

Box 1. The Cambodia TCAP

In view of Cambodia's limited institutional capacity, the Government of Cambodia requested the IMF's assistance to design a comprehensive program of technical assistance that covered the principal areas of reform related to macroeconomic policy. To this end, and following discussions between the government, the IMF, UNDP and other multilateral and bilateral donors, the Technical Cooperation Assistance Program (TCAP) was created and officially launched on June 1st 2001. This program was a joint effort funded by different donors, notably the IMF, the ADB, the United Kingdom, the Netherlands, and UNDP. The central elements of the program were: 1/ (i) fiscal reform, including improved budgetary management, broadening the tax base, avoiding ad hoc customs duty exemptions, and improving customs administration; (ii) re-orienting government spending to priority programs in agriculture, rural development, health and education; (iii) reforming the banking system and strengthening the central bank's supervisory capacity; (iv) improving the quality and timeliness of economic financial data; (v) improving administrative procedures to ensure that social sector spending targets are met; and (vi) improving public sector governance, transparency, accountability and adherence to the rule of law. The Ministry of Economic and Finance was responsible for implementing and overseeing the TCAP, whereas the IMF was responsible for providing the resident advisors and short-term experts in the fiscal sector, banking system, economic statistics, and legal sector. The role of UNDP was not fully defined leading to some misunderstandings. In particular, UNDP envisioned the TCAP as mechanism to discuss the macro policy content of TA recommendations among partners, whereas the IMF saw the TCAP as coordinating mechanisms and not a policy discussion forum. As an attempt to coordinate the different TA efforts, a steering committee was created with the participations of senior government officials, members of the donor community, and chaired by the Minister of Economy and Finance. Nevertheless, as the TCAP progressed, this committee proved insufficient, and a project manager was eventually named to address the lack of effective coordination.

1/ Government of Cambodia, "Cambodia: Technical Cooperation Assistance Program" (2001).

25. At the diagnosis stage, a deeper understanding of the local institutional context would have been desirable, along with a better comprehension by mid-level officials of the rationale for recommendations. In the following paragraphs we draw on the experience of TA in the area of budget execution and treasury to expand on these issues and suggest potential lessons.

26. The budget execution process in Cambodia is characterized by endemic cash shortages and unnecessarily long delays in spending approvals.²² In this context, the main objective of TA in this area was the implementation of a pilot version of a budget execution system that would replace all the systems operating in Cambodia's fragmented budget system. The pilot was intended to demonstrate the benefits of deconcentrated financial control. However, the success of the pilot was seriously impaired by the budget's constant cash flow crisis, generated by an ongoing stock of payment arrears which proved to be the most critical operational problem in the Cambodian budget system. In Cambodia, annual budget laws provide no budget credit to settle on arrears incurred prior to the current year, that is, old arrears. Nevertheless, current year revenue credited in the budget for current year spending needs is diverted to pay old arrears, while at the same time current year expenditure credits continue to be committed. Because of the ongoing diversion of current year revenue, current commitments eventually become arrears that are carried over into the next year.²³ Yet, initially the dimension and nature of the payment arrears problem in budget execution and cash management was not fully identified. This may have been the unavoidable result of the short time available to the diagnosis missions to fully grasp the institutional nuances in the budgetary area. The impact of TA in this early period was also affected by weaknesses in the initial resident advisory activities in the field.

27. In the latter period significant improvements were made in understanding the dimension and roots of the arrears problems and the implications for the overall budget system. As a result new budget execution procedures were implemented and treasury reforms were further refined. The extent of the payment arrears problem was fully acknowledged, and the focus of the Cash Management Committee (CMC) was reoriented from a passive role of trying to manage the cash crises through cash rationing at the end of the expenditure process, to a more proactive role focused on the management of expenditure authorizations before commitments are incurred.

28. The experience with payment arrears may have been the unavoidable result of the short time available to the diagnosis missions. In a country such as Cambodia, lengthier or a minimum set of diagnosis missions may be required, owing to the complex challenges faced and local peculiarities. Otherwise it may be necessary, that the action plan be fleshed out by a long term expert in order to incorporate most institutional nuances.

29. The need for a comprehensive approach to address the problem of accumulating arrears, underscores the relevance of effective coordination among international donors. For instance, there were no regular meetings of donors involved with the Public Financial Management Reform (PFM). TA provided by each donor was essentially a stand-alone

²² IMF, "Cambodia: Fiscal Strategy Brief" (2003).

²³ See Government of Cambodia (2003).

exercise with no relationship with each other, even if their area of interests were linked. This undermined the possibility of addressing the endemic cash shortage crises comprehensively.

30. Lack of coordination was constantly mentioned by local authorities and donors as an obstacle to successful TA implementation (Box 2). On the one hand, having to deal with many different donors and their required administrative procedures may become unnecessarily burdensome for the authorities. The lack of coordination also may provide local authorities an opportunity to shirk their responsibilities, since they may be able to play sometimes contradictory advice against each other to have their own preferences implemented. In other words, it becomes increasingly difficult to ensure that authorities follow the IMF's recommendations when related advice by other institutions is not entirely consistent. In short, tighter coordination among donors would make the life of the authorities simpler, and would eliminate an excuse for the lack of results.

Box 2. Donor Coordination

After the experience accumulated under the TCAP, the Cambodian government along with some international donors (the IMF has been reluctantly involved), has developed the Sectoral Wide Approach (SWAP). The SWAP is an attempt to provide a more holistic and better coordinated approach to capacity building, and enhance ownership by highlighting the leading role of the authorities. In particular, it aspires to be more sensitive to local institutional settings and provide a broader perspective of the assistance needs, with a tighter coordination among donors and authorities. As opposed to the TCAP, the SWAP seeks to emphasize discussions and agreements at the diagnosis and design stages. It is too early to make any judgment on whether the SWAP has been a more successful vehicle than the TCAP, but it suggests a potential tension between enhancing ownership and time efficiency. On the one hand, the SWAP appears to be a plausible instrument to increase the ownership of local authorities. On the other hand, excessive consensus building and coordination may become an additional burden to an effective implementation of TA reforms.

31. A final lesson that can be drawn from the budget execution experience is that, in order to enhance the impact of TA, one cannot assume the existence of a functional bureaucracy. In particular, the TCAP assumed that there were working communication channels between top ranking officials and those mid-level officials in charge of implementation, and this assumption proved to be wrong. When the initial TA program was laid down, the IMF understandably concentrated its interaction with authorities at the top level, assuming the information would trickle down to mid-level officials. Nonetheless, vertical communications within the MEF proved to be very poor and, as a result, the final design of the program had no input from the officials in charge of implementation, which significantly undermined their ownership. A good example of this was the case of the First Deputy Director of the BFAD, who did not have any participation during the diagnosis and design stage and was later in charge of carrying out the recommendations. This official was surprised to find out that the TCAP's priorities were not related to what he considered they should be. For example, he preferred to strengthen the existing budgetary system rather than moving to what he considered a "state of the art" budget. Regardless of whether his concerns were justified or not, the fact that he did not have the opportunity to express his views reduced his support for TA implementation, at least initially. If the IMF had a more proactive communication with mid-level officials in explaining the rationale for the proposed

reforms—even if this task should be done by high level officials, TA ownership would had been enhanced along with its impact. In short, it is a convenient strategy to maximize the impact of TA advice by ensuring that officials in charge of implementation are properly informed ex ante, in spite of poor communication within ministries.

32. In sum an examination of TA in the area of budget execution provides the following TA lessons:

- Improved coordination among donors is necessary not only to facilitate a holistic approach, but also to avoid excessive administrative burdens, and excuses for lack of results.
- Lengthier or a minimum set of diagnosis missions seems desirable in countries such as Cambodia, particularly in those areas, such as budgetary institutions, that vary sharply across countries. This is the case because short-term missions may not have enough time to fully grasp the institutional nuances of the country.
- To enhance ownership, it is desirable to make sure that local officials, particularly those in charge of implementation, are well-informed ex ante about the rationale of the proposed recommendations. This is especially challenging and important in a context where communication within ministries is inadequate.

B. Long-Term versus Short-Term Experts: A TA Cycle

33. The overwhelming majority of Cambodia's TA²⁴ has been delivered by long-term resident experts, and given the capacity constraints faced by the country this mostly seemed necessary. Long-term experts not only had to train their local counterparts from virtually scratch, but also had to play a key role in coordinating efforts within the ministries, given the poor managerial skills of the Cambodian authorities. The low technical level that experts frequently confronted made indispensable a close follow-up on the implementation of TA recommendations, and on the learning process of their local counterparts. In addition, the sometimes nonexistent managerial abilities of top officials forced the experts to address more than merely technical concepts and to teach the authorities some basic principles of management. Given the institutional complexities of Cambodia, long-term experts played a key role in adapting TA recommendations made by short-term diagnosis missions.²⁵ Overall, it is fair to assume that, without the daily presence of long-term experts, the authorities would have faced likely insurmountable problems in implementing most TA recommendations.

²⁴ On average, 95 percent of the total TA received by Cambodia between 1998–2004 has been delivered by long-term resident experts.

²⁵ See the above-mentioned case of budget execution reform.

34. Nevertheless, there are some risks in using long-term experts and these have been debated for some time within the IMF. These considerations have led to an institutional policy to favor short-term missions over long-term experts.²⁶ Of particular concern has been the risk of long-term experts becoming in-line managers. When this happens, the expert's primary objective of transferring knowledge tends to be subordinated to daily activities that should be performed by local officials. Tasks, such as speechwriting, advising the minister, or simply doing the everyday jobs that experts are supposed to teach, are real risks that undermine the capacity building effects of TA. Also, in countries with low-skilled public servants senior authorities have a strong incentive to use the knowledge of experts for more tasks than just those related to transfer of knowledge. Once again, Cambodia offers important lessons in this regard.

35. All the long-term TA experts that the evaluation team met, acknowledged that at some point they had been involved in daily operations of the department and not only in the transfer of knowledge. At first, this would seem to confirm the concerns that have produced a shift away from long-term experts. Yet, there are two factors that should be considered before jumping to any conclusions. First, those "daily operations" tasks performed by experts tend to enhance the impact of TA. For instance, the multi-sector statistical expert frequently helped the NIS management to write and refine grant requests meant to obtain the necessary resources to implement TA recommendations. By these means, the NIS obtained funding from international nongovernmental organizations (NGOs) that made it possible to implement TA advice. TA experts also mentioned that their occasional participation in activities that were not strictly related to TA—such as helping to write a speech—was not very time consuming, but improved their relationship with the authorities and therefore the authorities' disposition to cooperate. It follows that under some circumstances there may be desirable engagements of TA experts in "daily operations" to enhance the final impact of TA advice, not least because those activities can help gain the authorities trust.

36. At the same time long term TA experts mentioned there were pressures to perform "daily operations" tasks, they also acknowledged that it is up to them to say no to frequent requests on activities that should be carried out by local counterparts. Indeed, most of them at some time refused to engage in activities they considered beyond their mandate and authorities simply acquiesced. Therefore, it is clear that although long-term experts run the risk of becoming in-line managers, it is under their control to stick to transfer of knowledge and capacity building tasks. In other words, the risk of long-term experts being co-opted by daily operations is real, but not beyond their control. In this context, the use of long-term experts in a country like Cambodia seems adequate.

²⁶ See IMF, "Review of Technical Assistance Policy and Experience"(2000); and IMF, "Review of Technical Assistance Evaluation Program—Findings of Evaluations and Updated Program" (2004).

37. The risk of long-term experts becoming line managers is relevant to the issue of how detailed the Terms of Reference (TORs) should be. If TORs are specific enough, the risk of long-term experts being involved in daily operations is ameliorated. On the other hand, if TORs are too specific, there is a risk of ignoring important needs that were not diagnosed initially, but that emerged clearly as the program progresses. The case of budget reform is a good example where the original TOR of the budget expert were quickly outdated as nonanticipated needs emerged. Eventually most of the experts tasks were beyond the scope of his initial TOR. In short, there is a trade-off between specificity and flexibility when drafting TOR that needs to be acknowledged. Specific and narrow TORs reduce the risk of experts becoming line managers, at the cost of flexibility to change in the eyes of unforeseen needs.

38. One risk of using long-term experts extensively is that authorities may become TA “addict.” This risk appears to be particularly present at the NBC. This institution has been largely successful in implementing TA recommendations and in training its officials. In a lot of respects, the NBC has been the ideal TA “pupil.” Yet, in spite of their growing capacity, officials at the NBC are reluctant to adventure into any new task without the guidance of IMF TA. The NBC has been an excellent pupil, but it is unwilling to start walking on its own, and thus, despite its success in building capacity its dependency on TA has not diminished.

39. This experience suggests the need to plan ahead how to phase out TA advice in order to encourage local institutions to start walking on their own and to help them “graduate.” One possibility is to shift from long-term resident experts to peripatetic experts as capacity is successfully built and a certain threshold is reached. For instance, in Cambodia the NBC appears to have reached a stage where long-term experts are no longer indispensable and thus a shift to peripatetic experts is feasible and desirable. This shift to peripatetic experts would not interrupt the learning and capacity-building process, at the same time it would force the authorities to become more self-reliant in accumulating expertise. This shift could be smoothed by sending a growing number of officials to training seminars abroad. Eventually, as the process of capacity building continues a shift from peripatetic experts to short-term missions would be desirable.

40. A final issue that deserves attention is the ideal profile of long-term experts. Most authorities expressed a strong preference for hands-on experts who were willing to work closely with their counterparts. Officials from diverse ministries—such as the NIS, the MEF or the NBC—constantly praised experts who sat with them in front of the computer to teach and help their local counterparts. Hands-on experts are clearly more successful in transferring knowledge. Another lesson that can be drawn from the Cambodian experience is the convenience of having experts that are familiar with how bureaucracies work. When experts have been civil servants themselves they tend to be more successful in conveying their messages to local authorities. For instance, presenting a concise and succinct summary of the proposals rather than a lengthy report to the decision-makers enhances the possibility of an expedited and favorable resolution. A desirable characteristic of long-term experts is to combine managerial skills with the ability to do strategic planning. Given the poor managerial skills of the Cambodian authorities, long-term experts frequently have to

coordinate and plan future actions, thus making it desirable to have experts with managerial experience. The divergent experience of resident experts in budget execution and the treasury also underlines the importance of other criteria such as: depth of technical knowledge and ability to work closely with both the political and technical authorities. In sum, hands-on managerial skills, bureaucratic experience, depth of technical knowledge, and ability to work closely with political and technical authorities, are features of long-term experts that are likely to enhance the impact of TA in low income countries.

C. Implementation: The Lack of Resources

41. An issue frequently raised by the authorities was the lack of resources to implement TA recommendations. The quintessential example of this was the lack of computers in the tax and customs departments. In these departments, as in most departments, the ability to satisfy their computerization needs, in terms of hardware and software, is limited or nonexistent. As a result, recommendations that required computing systems but did not provide funding proved largely unattainable. For instance, a fully fledged computerized clearance system was indispensable to modernize and streamline of customs procedures, and yet initially neither the MEF nor donors provided resources to buy the required equipment. Hence, the crucial introduction of an automated customs processing system had to be postponed, and the assignment of the long-term expert had to be extended. Clearly, the lack of funding for implementing reforms hindered the impact of TA.

42. In a similar vein, the long-term statistics advisor spent a significant amount of his time helping the authorities to secure funding from international donors to implement the recommended surveys and statistical series. Without this external financing, the expansion of economic and social statistics would have been simply unattainable. Once again, the lack of funding for implementing and following-up TA recommendations became an obstacle to the larger impact of TA.

43. Whether funding the implementation of TA recommendations is solely the responsibility of local authorities or not, the Cambodian experience shows that in order to enhance implementation, it is necessary to provide adequate funding—irrespective of its source—to implement TA recommendations. A closer coordination with international donors to provide a “full-package” in which TA recommendations are matched with the necessary implementation resources would be ideal. Pooling donors’ resources, to make sure *ex ante* that TA recommendations are properly funded until their implementation is highly desirable. One has to question the rationale for embarking on TA projects whose recommendations require financial resources but availability is highly uncertain.²⁷

²⁷ This raises the question whether too much money was spent on experts. Around 90 percent of all financial contributions under the TCAP were used to pay for experts. Country authorities frequently mentioned that less money should have been used for experts and more to finance the implementation of TA recommendations.

D. Tracking and Monitoring Progress During Project Execution

44. One of the most frequently mentioned TA weaknesses is the lack of adequate monitoring. Essentially all past TA evaluations—including the most recent ones—show that TA departments do not provide continuous systematic monitoring of the recommendations they make.²⁸ Scarce resources have resulted in a lack of follow-up and monitoring, with a clear negative effect in terms of implementation and effectiveness. As a result, an IMF-wide methodology for monitoring and evaluating is frequently mentioned as a necessary step, in order to be able to tell recommendations that “work” from those that “do not work.”²⁹

45. The experience in Cambodia provides some interesting lessons in this regard. Although most monitoring has been done by long-term resident experts, the monitoring done by STA on the progress of TA recommendations offers an example of how a systematic monitoring system may work.

46. Ministries receiving statistics TA—mostly the NBC and the NIS—are obliged to send the series they have developed to IMF STA staff. By these means, STA has a measurable output that allows it to monitor closely the progress of TA and its deficiencies. In addition, as acknowledged by local officials this constant monitoring provided a good set of incentives. Their awareness that STA’s staff was observing the timeliness and quality of their work was an incentive to work harder. A similar effect was provided by the prospect of a forthcoming peripatetic or short-term mission. Officials and long-term experts recognized that when a new mission was nearing overall productivity increased. Close monitoring clearly shaped the incentives of local officials in a way that enhanced the impact of TA.

47. In an ideal world, the IMF should be able to create a system that could monitor the progress of TA in a similar fashion to the way STA monitors the work of statistics officials. Although it is clear that monitoring STA outputs is simpler owing to the type of results that are expected from this type of TA, a general effort to develop a Fund-wide and systematic monitoring is desirable.

V. CONCLUSIONS

48. TA efforts in Cambodia had diverging results. Banking sector reform and economic statistics reform can be deemed largely as success stories, whereas TA on the fiscal sector encountered more difficulties. As mentioned in the previous paragraphs, there was a wide

²⁸ See Diamond, Jack and others, “Public Expenditure Management Reform in Anglophone African Countries: An Assessment of FAD Technical Assistance” (2002); and Chevauchez, Benoit, “External Evaluation of Technical Assistance Public Expenditure Management in Francophone Africa” (2003).

²⁹ See Public Information Notice No. 02/73, “Review of Technical Assistance Policy and Experience” (2002).

array of factors that influenced these different outcomes, which offer important lessons for future TA efforts.

- **Political will** is the ultimate necessary condition for a successful TA. Without it any effort will most likely fail. That is why it is necessary to monitor closely the authorities' will and to be clear and transparent when it is lacking. In other words, the IMF should “rock the boat” when a clear commitment to implement TA recommendations is not present.
- A **functional civil service** is another precondition for a significant and lasting TA impact. Without a civil service with some minimum degree of stability and competitive salaries the impact of TA will constantly be undermined by high turnover and a slow transfer of knowledge.
- Improved **coordination among donors** is necessary not only to facilitate a holistic approach, but also to avoid contradictory advice, excessive administrative burdens, and excuses for lack of results.
- **Lengthier or a minimum set of diagnosis missions** seems desirable in countries such as Cambodia, particularly in such sectors that vary sharply across countries. This is the case because short-term missions may not have enough time to fully grasp the institutional nuances of the country.
- It is desirable to make sure that **local officials**, particularly those in charge of implementation, **are well-informed ex ante** about the rationale of the proposed recommendations to enhance ownership. This is specially challenging and important in a context where communication within ministries is inadequate.
- In order to avoid countries becoming “**addicted**” to TA it is necessary to plan how to **phase out TA advice** in order to encourage the authorities to start walking on their own, and to help them “graduate.” One possibility is to shift from long-term to peripatetic experts as capacity is successfully built and certain threshold is surpassed.
- Cambodia's experience suggests that ideally a long-term expert should be **hands-on, with managerial skills and bureaucratic experience**.
- A closer coordination with international donors to provide a “full package” where TA recommendations are matched with resources from these donors would be ideal. **Pooling donors' resources**, to make sure ex ante that TA recommendations will be properly funded, is desirable.
- It is desirable to create a system that could **monitor the progress of TA** in a close and constant manner. Cambodia's experience shows that close monitoring was associated with better implementation and more productive local officials.

- The **TCAP**, as recognized by all TA players, was a valuable building block that introduced a medium-term framework to TA provision, along with a first vehicle to coordinate efforts among donors. Nevertheless, the TCAP was mostly an amalgamation of separate initiatives that did not amount to an integrated strategy of capacity building, the implementation of its different components remained largely compartmentalized. As a result, capacity bottlenecks were frequently addressed in a piece-meal manner, without substantive coordination among donor

LIST OF INDIVIDUALS INTERVIEWED

| Name | Title | Organization |
|------------------------|--|---------------------------------|
| Mr. Shyam P. Bajpai | Country Director | Asian Development Bank |
| Mr. Purnima Rajapakse | Senior Programs Economist | Asian Development Bank |
| Mr. Vanndy Hem | Economics & Finance Sector Officer | Asian Development Bank |
| Mr. Chamroen Ouch | Program Officer | Asian Development Bank |
| Dr. Daniel Arghiros | Head of Office and Governance Advisor | DFID |
| Mr. Brian Thornton | Budget System Advisor to the MEF | IMF |
| Mr. Patrick Huges | Advisor to the NBC | IMF |
| Mr. Bruce G. Hill | Advisor to the Customs and Tax Department | IMF |
| Mr. Colin Nagle | Multisector Statistics Advisor | IMF |
| Mr. Robert Hagemann | Resident Representative | IMF |
| Mr. Patricio Castro | Senior Economist | IMF |
| Mr. Il Hounng Lee | Deputy Div Chief | IMF |
| Mr. Mario de Zamaroczy | Advisor | IMF |
| Mr. Hong Tha | Director Tax Department | Ministry of Economy and Finance |
| Mr. Um Seiha | First Deputy Director of Tax Department | Ministry of Economy and Finance |
| Mr. Kun Nhem | Deputy Director Customs and Excise Department | Ministry of Economy and Finance |
| Mr. Aun Porn Moniroth | Secretary General | Ministry of Economy and Finance |
| Mr. Ieng Sunly | First Deputy Director Budgeting and Financial Affairs Department | Ministry of Economy and Finance |
| Mr. Sok Saravuth, | Deputy Director Economic and Financial Policy Unit | Ministry of Economy and Finance |
| Mr. Hang Choun Naron | Deputy Secretary General | Ministry of Economy and Finance |
| Mr. Khay Phousnith | Director Economic Research Department | National Bank of Cambodia |
| Mrs. Tal Nay Im | Director General | National Bank of Cambodia |
| Mr. Phon Ho | Director Banking Supervision | National Bank of Cambodia |

| Name | Title | Organization |
|-------------------------------|--|----------------------------------|
| Neau Chantana | Deputy Director Banking Supervision | National Bank of Cambodia |
| Mr. Sokhamm Tann | Banking Supervision | National Bank of Cambodia |
| Mr. Roth Savuth | Director Banking Operation Department | National Bank of Cambodia |
| Mr. Keam Kuntha | Deputy Director Banking Department | National Bank of Cambodia |
| Mr. Huy Navy | Director of Exchange Management Department | National Bank of Cambodia |
| Ms. Sokhan Tan | Deputy Director of Exchange Management Department | National Bank of Cambodia |
| Mr. San Sy Than | Director of the National Institute of Statistics | National Institute of Statistics |
| Mr. Ladislaus Byenkya-Abwooli | Deputy Resident Representative | UNDP |
| Ms. Ingrid Cyimana | Team Leader, Poverty Reduction Cluster | UNDP |
| Mrs. Nisha Agrawal | Country Manager | World Bank |

REFERENCES

- Chevauchez, Benoit, *External Evaluation of Technical Assistance Public Expenditure Management in Francophone Africa*, Fiscal Affairs Department, 2003.
- De Zamarozcy and Sa, *Economic Policy in a Highly Dollarized Economy*, OP 219, IMF, 2003.
- Diamond, Jack and others, *Public Expenditure Management Reform in Anglophone African Countries: An Assessment of FAD Technical Assistance*, Fiscal Affairs Department, July 2002.
- Evans Peter, Rauch James, “Bureaucratic Structure and Bureaucratic performance in Less Developed Countries,” in *Journal of Public Economics*, 75, pp. 49–62, January 2000.
- Frydl, Edward, Juan Foxley, and Eddie Herron, *Banking Sector and Accounting Issues and Management of Foreign Exchange Reserves*, December 2003.
- Government of Cambodia, *Cambodia: Cambodia: Technical Cooperation Assistance Program*, May 31, 2001.
- _____, *Technical Cooperation Assistance Program Progress Report*, April 2003.
- International Monetary Fund, *Cambodia Article IV*, 2000.
- _____, *Review of Technical Assistance Policy and Experience*, Office of Technical Assistance Management, 2000.
- _____, *Cambodia Article IV*, 2002.
- _____, *Cambodia: Fiscal Strategy Brief*, Fiscal Affairs Department, 2003.
- _____, *Cambodia: Fiscal Strategy Brief*, Fiscal Affairs Department, 2004.
- _____, *Cambodia, Ex Post Assessment of Longer-Term Program Engagement*, 2004.
- _____, *Review of Technical Assistance Evaluation Program—Findings of Evaluations and Updated Program*, Office of Technical Assistance Management, 2004.
- Prakash, Teji., et. al., *Cambodia: Framework for improving expenditure management*, IMF, September 2001.
- Public Information Notice No. 02/73, *Review of Technical Assistance Policy and Experience*, July 2002.

UNCTAD, *Evaluation Report on TCAP on Strengthening Economic and Financial Management*, 2004.

UNDP, *Program of the Government of Cambodia: Program Support Document*, May 2001.