



# CAMBODIA DEVELOPMENT REVIEW

A Publication of the  
Cambodia Development Resource Institute

VOLUME 8, ISSUE 4

OCTOBER-DECEMBER 2004

\$4.00

## Options for Initial Development of Commune/Sangkat Own-Source Revenues in Cambodia

The PORDEC programme at CDRI has conducted a study of commune/sangkat own revenue sources. Eng Netra, governance and decentralisation researcher, summarises the findings.\*

### Why Study Own Source Revenue?

Like local governments around the world, commune/sangkat (CS) councils in Cambodia will need to develop local sources of revenue if they are to function effectively. Intergovernmental transfers, such as those provided through the Commune-Sangkat Fund, are an indispensable source of revenue in most countries. Locally derived revenues also provide important income to supplement national transfers and serve as a means for citizens to contribute to the costs of the local public services they receive.

The main purpose of CDRI's study is to assist the Ministry of Economy and Finance (MEF) to pilot a number of CS own-source revenues as provided for in the 2001 Law on the Administration and Management of Communes and endorsed by the prime minister. In addition, the development of CS own-source revenues has been identified as one component of the government's recently adopted reforms of public financial management.

Based on data collected from seven CS in four provinces—Tram Kak and Chumreah Pen in Takeo, Samraong and Kouk Chak in Siem Reap, Prey Nob in Sihanoukville, and Boeng Prolit and Olympic in Phnom Penh—the study (i) identifies feasible options for sharing or reassigning collected revenues from the provinces and municipalities (PM) to the CS and (ii) considers potential new sources of CS revenue. The field work included semi-structured and structured interviews with stakeholders at different levels of government and administration, and informal discussions with business owners and local people.



Commune counsellors working on civil registration at Prek Tnaot commune, Kampot.

This article is based on a CDRI report prepared in cooperation with the MEF and the National Committee to Support the Communes (NCSC). It also includes comments and recommendations received during a national workshop on CS own sources of revenue in July 2004, in which all stakeholders and agencies discussed (i) potential new sources of revenue for the CS and (ii) spe-

### In This Issue

Options for Initial Development of Commune/Sangkat Own-Source Revenues .....	1
Institutional Credit in Rural Cambodia .....	4
Towards Understanding Social Protection .....	9
Economy Watch	
— External Environment .....	12
— Domestic Performance .....	15
— Economic Indicators .....	17
CDRI Update .....	20

\* The full report on which this article is based will be published in a forthcoming CDRI research paper.

cific options and instruments to be piloted. It is hoped that, based on this information, the MEF can now move forward with pilot initiatives and eventually with specific policies and regulations.

### Present Revenue Sources

A discussion of CS own-source revenues can not proceed without understanding the overall government revenue structure. Of greatest relevance are the current revenue sources of the PM (those included in the *salakhet*<sup>1</sup>), which are the most likely to be shared with the CS. The main sources of tax revenue currently assigned to the PM are: (i) tax on unused land, (ii) tax on property transfers, (iii) tax on means of transportation, (iv) *patente*<sup>2</sup>, (v) slaughtering tax and (vi) public lighting tax. The PM collect other non-tax revenues, such as *pheasie*<sup>3</sup> (market fees) and user charges. In general, the four provinces under consideration collect their largest revenues from taxes on property transfers and means of transportation, as well as the *patente*. The collection of *patente* and tax on transfers usually meets the targeted amounts,<sup>4</sup> whereas the yield of the tax on means of transportation is quite low relative to targets.

### Options for Revenue Sources

Based on field work conducted in the sample CS and the available data on PM tax collection, a number of options for piloting CS own-source revenues have been identified. These include (i) sharing of tax revenues from means of transportation and *patente*, (ii) partial reassignment or sharing of one non-tax revenue source (*pheasie*) from the PM to the CS, (iii) adoption of service-specific user charges and (iv) development of a general CS service levy based on simple land and property characteristics to help cover the cost of services that cannot be directly charged for. These options, including the basic rationale for their selection, how arrangements might be structured and possible roles of the CS, are discussed below. In some cases these options will have significant implications for PM revenues, and consideration would have to be given to how to replace the revenues lost by the PM as part of overall public sector fiscal reforms.

#### Tax on means of transportation

*Selection rationale:* CS already commonly assist in the collection of this tax, albeit in an informal way. It is a relatively simple tax to collect, and there is potential for continued growth of the tax base. CS could take some responsibility for local road maintenance with the revenues from this tax.

*Tax-sharing arrangements:* Although CS in some provinces informally assist with the tax on means of transportation, a true CS source of revenue should be formalised on the basis of rules, not on informal negotiation. The fixed percentage of the tax collections to be shared with the CS would be decided by the NCSC in

consultation with relevant ministries. The share could be determined simply by designating a percentage that would provide a certain amount of revenue to the CS, or it could be more specifically tied to the estimate of the CS road maintenance costs. In the latter case, taxpayers could be informed that a portion of the CS tax share would be used specifically for this purpose.

*Possible roles of the CS:* A tax-sharing experiment would involve collaboration between the district tax office and the CS councils. The CS could be required to perform the following functions:

- prepare and maintain an up-to-date vehicle registration list and register vehicles;
- inform villagers about the tax through village meetings and public posting of relevant regulations and guidelines;
- collect the tax based on the registration list;
- prepare collection reports and make them available for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

#### Patente

*Selection rationale:* All types and sizes of business currently pay *patente*, and it is easy for CS to identify local businesses. The base is fairly stable and tends to grow over time. Devoting this revenue to visible local services may improve taxpayer compliance, which is currently poor in many areas.

*Tax-sharing arrangements:* The *patente* in the CS survey areas is already informally shared where the CS assist the district tax office with collection. Sharing should be formalised under the CS budget according to

clear rules. One option, for example, would be to assign the tax bases of all businesses within the “estimated” (small business) regime<sup>5</sup> from the PM to the CS, leaving the PM with the “real” (larger businesses) regime. Another option would be to share some portion of the “estimated” and/or “real” regime revenue with the CS.

*Possible roles of the CS:* A tax-sharing experiment would involve collaboration between the district tax office and the CS councils. The CS could be required to perform the following functions:

- prepare and maintain an up-to-date *patente* register, working with the district tax office to classify businesses into their *patente* categories;
- collect the *patente* based on the classified register;
- deliver to taxpayers the *patente* certificates issued by the PM tax branch;
- prepare collection reports and make them available for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

**The collection of *patente* and tax on transfers usually meets the targeted amounts, whereas the yield of the tax on means of transportation is quite low relative to targets.**

***Pheasie and user charges for CS services***

*Selection rationale:* PM currently outsource market management, including *pheasie* collection, to the private sector. CS might be able to manage or even take over ownership of smaller markets. *Pheasie* is a relatively simple revenue to collect and can be significant in areas with busy markets. It also creates linkages between revenue and expenditures, as some portion of the collected funds could be used for local market services, such as cleaning, waste collection and maintaining order.

*Reassignment of revenues:* One option would be to share or reassign to the CS *pheasie* revenues collected from small and unregistered markets, leaving revenues from the larger markets to the PM. Another option is to turn over small market assets to the CS and allow them to manage the markets themselves or outsource this function. It may also be worthwhile to consider sharing revenue collected from larger PM markets with the CS, as some CS would realise little revenue from their market or do not have one within their boundaries.

*Possible roles of the CS:* Whether they own or manage markets, CS would need to take responsibility to:

- provide services to ensure safe, orderly and clean markets;
- collect daily *pheasie* from all vendors in accordance with established practice;
- separate *pheasie* from other CS revenues to ensure that they are protected for use for market-related expenditures;
- create an enabling environment for businesses in the market to improve and grow;
- keep proper records and make them available for public review and audit;
- deposit collected revenue to the CS bank account or PM treasury;
- enforce collection.

In addition to being assigned the *pheasie*, CS could also adopt user charges for services that can be directly charged for, such as drinking water and irrigation services. User fees for particular services would be collected from the users of that service. CS will have to identify the services for which direct charges can be collected and set fees that meet local revenue needs for the service, following national guidelines.

***General CS service levy***

*Rationale:* A general CS service levy could be used to help finance CS services for which direct user charges cannot easily be collected. The CS service levy could raise significant revenues and might be the only major source of revenue in some CS.

*Arrangements for administration and collection:* The general CS service levy could be collected from every household and business within the CS as an annual fixed fee that would depend on (i) the category of land use

(agricultural, residential, commercial), (ii) the size classification of land used and perhaps (iii) a few basic characteristics of land use (developed or undeveloped, size and quality of structure etc.). Of course, more work would have to be done to develop an appropriate classification system and to assign appropriate charges to each category.

*Possible roles of the CS:* The roles of CS could include the following:

- record and update a communal land register regularly with assistance from the Land Management and Administration Project and the current land register;
- classify plots for levy collection based on MEF regulations and the CS register list;
- assess and collect the appropriate payments from each liable payer;
- prepare collection records and reports for public review and audit;
- deposit revenues into the PM treasury or a CS bank account;
- enforce collection.

**Next Steps**

There was broad support during the national workshop in July for piloting the sharing of selected provincial revenues and considering how the CS can adopt user charges. A service levy was not ruled out, but given the sensitivity about land taxes in Cambodia, the discussion made clear that additional research would be needed before considering this option for piloting. Other ideas for sharing revenues with the CS, like unused land taxes, were also raised.

The MEF would like to pilot CS own-source revenues as soon as possible. However, further discussions and more work will need to be done with regard to the ideas raised above for sharing and/or assigning selected PM revenues to CS and for adopting new CS sources of revenue. Major issues for discussion concern administrative arrangements for each of the CS own-source revenues, capacity building and support for administering these new sources at the commune level, the structures of new revenue sources (e.g., the percentage of the *patente* to be shared with the CS and the types of markets to come under the jurisdiction of the CS councils) and whether rural and urban areas should have different revenue structures.

There will be some challenges in developing CS own-source revenues that will need to be dealt with as new sources of CS revenue are piloted and adopted. These include:

- collecting additional information required to develop detailed guidelines for piloting the new revenue options;
- structuring the new sources in a way that will not unduly burden those who cannot afford to pay;
- building the capacity of the CS councils to administer the new sources of revenue effectively;

***Pheasie is a relatively simple revenue to collect and can be significant in areas with busy markets.***