

Taking Fiscal Decentralization a Step Further: Initial Recommendations for Cambodia

Werner Gatzert

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Opening Perspective

- Direct one-to-one transfer of German lessons is neither intended nor feasible. Contexts, legal traditions, and historical trajectories differ; recommendations must be tailored to Cambodian realities.
- There are meaningful similarities in reform ambitions. A key difference: subnational levels in Germany enjoy greater autonomy, which affects governance, fiscal assignments, and implementation pathways.
- A defining feature of decentralization is a real transfer of responsibility and accountability, not only tasks; align functions, capacities and finances to make it credible and sustainable...

Functional Decentralization & Staffing

Assign responsibilities to the most effective level

- Allocate functions to the level best positioned to deliver them and ensure capacity to implement: functioning administrations, minimum capacity standards, sufficient quantity of staff
- Define responsibilities clearly for all subnational tiers and specify cooperation modalities across levels and sectors, esp. for joint tasks — effective delivery requires cooperation.

Consider additional delivery models and partnerships

- Further explore public ownership with private operation for service delivery (e.g., through state-owned enterprises at subnational level where appropriate)
- Consider public–private cooperation, with clear performance contracts, regulation and accountability.

Fiscal Decentralization

Diversify and strengthen own-source revenues

- Create new revenue sources, e.g., targeted environmental fees such as a levy on single-use plastics in the food service sector.
- Consider incentives: SNAs collecting their own revenue to keep will likely be more thorough in collecting fees
- While revenue sharing serves equity purposes, there might be a case to allocate some taxes (e.g. property taxes) to the SNAs where they were collected.

Ensure predictable financing and increase efficiency in spending

- Make full annual budgets to SNA available at the beginning of the budget year (cuts administrative burden of submitting requests for Q2-4 and reduces delays. Move from ex ante to ex post controls.
- Allow SNAs greater flexibility in moving budget between budget chapters by defining more generous rules and allowing local councils to sign off on budget reallocations.
- Clearly define which taxes belong to which level, independent of the place of collection.
- Define clear sharing rules for joint taxes across all levels (central, province, districts/municipalities, communes/sangkats) and allocate a predictable share of sectoral budgets to SNAs.

Borrowing and fiscal risk management

- Subnational borrowing is not advisable in the near term in Cambodia; focus on building fiscal discipline, transparency, and medium-term expenditure frameworks first.

Proposal for Testing New Ideas

1. Agree on policy areas to test
2. Run pilots in 2-3 provinces
3. Monitor and evaluate
4. Assess/Adjust
5. Roll out