



The Contributions from Subnational Administration Budgets to Local Development in Cambodia

Vanny Sok^{1*}; Sereth Neau²; Marvin Vanny³

¹Royal University of Phnom Penh, Russian Federation Blvd (110), Phnom Penh, Cambodia, vanny.sok@rupp.edu.kh.

²National University of Management, Monivong Blvd corner of Christopher Howes St. (214), Phnom Penh, Cambodia, neausareth@num.edu.kh.

³Universitas Negeri Padang, Padang, Indonesia, marvinvanny92@gmail.com

Abstract

This paper explores the impact of sub-national fiscal expenditures on local development in Cambodia, including the success factors and systemic issues of fiscal decentralization. The paper employs a mixed-methods research design, which combines the longitudinal analysis of sub-national fiscal expenditures from 2001 to 2023 with case studies. The quantitative data was collected from the Ministry of Economy and Finance to analyze the spending behavior, while the qualitative data was collected through semi-structured interviews and field observations to evaluate the service delivery performance at the commune and district levels. The mixed-methods research design allows the development of a comprehensive map of the process of financial resource conversion into local development outcomes. The results show that good financial management at the sub-national level has a significant positive impact on infrastructure, health, and education outcomes. Nevertheless, the findings also show that there are still large gaps in resource allocation and community engagement. The paper concludes that although fiscal transfers have created a basis for growth, there is a need to enhance local governance by adopting participatory budgeting to make fiscal allocations more responsive to the needs of the community.

Keywords: Decentralization, Fiscal Management, Local development, Subnational administration, Cambodia.

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Introduction

The transformation of the political and economic landscape in Cambodia occurred in the early 1990s after a series of violent activities. The political environment is mainly a centralized system (International Bank for Reconstruction and Development, 2021; Rohdewohld, 2022); however, a series of reforms have created opportunities for decentralization. The Royal Government of Cambodia introduced a series of reforms aimed at empowering the local administration, who play a crucial role in the development process (Asian Development Bank, 2018; Rohdewohld, 2022). Despite the consistent growth in GDP, averaging 7% over the last two-decade period, which was lowered to 2-3% due to the effects of the COVID-19 pandemic (World Bank Group, 2022), the growth rate in the economy has not influenced the rural sector, which is still facing poverty and inadequate infrastructure, hence the importance of the budgets for local administration (International Bank for Reconstruction and Development, 2021; Sokang, 2018).

Subnational budgets refer to the financial resources that the government channel to different levels of governance, including the provincial, district, and commune levels. These resources are meant to cater to the needs of the respective local communities. In this sense, subnational budgets are quite instrumental in addressing issues that touch on critical needs like infrastructure, health, and education (Asian Development Bank, 2024; International Bank for Reconstruction and Development, 2021). This, therefore, improves the quality of life for the respective populations living in these regions. In addition, subnational budgets make the government more transparent and accountable for the utilization of resources. This is due to the fact that the government is more accountable to the local populations (Rohdewohld, 2022). As a result, the budgets aid in the efficient utilization of government resources.

The major aim of carrying out this study was to determine the contribution of subnational administration budgets in the process of local development in Cambodia. To achieve this aim, the research will seek to find answers to the following questions: How much and in what ways does the subnational budget devote resources to various areas of development and what consequences this has on local development? What challenges subnational administrations often experience in the utilization of subnational budgets? Moreover, the research will seek to find out how the subnational budgets promote community participation in the process of governance in the country. Through the evaluation of these concerns, the research promises to offer insights into the success of decentralization in the country in the context of local development and subnational administration budgets. Thus, the paper promises to add more depth to the knowledge of the interrelation between local development and subnational administration budgets in the country, which will significantly impact the lives of the people of Cambodia.

Literature Review and Research Focus

Subnational Budgets as a Tool for Development in Cambodia

The process of decentralization in Cambodia has progressed in a stepwise, progressive manner, which is a manifestation of the unstable years that have recently engulfed this particular nation (Eng, 2016). After a turbulent history of facing the Khmer Rouge in 1975-1979, Cambodia has devised an administrative system with a strong central government. Even though it was in the early 2000s that the Royal Government of Cambodia tried to bring some reform-oriented measures that involved sub-central governments, the participatory role of communities and greater self-administration of sub-central governments are considered important movers for reconstruction (Asian Development Bank, 2018; Rohdewohld, 2022). It has been observed that the Royal Government of Cambodia has initiated several new projects recently with an intent to further better decentralization. One of the recent projects, which can be considered important enough to feature here, would include the Decentralization and Deconcentration Strategy (D&D), launched in the early 2000s, with an aim to further enhance the features of decentralization, where more responsibilities are handed over to sub-central governments—who can further ensure effective utilization of resources allocated to them (Asian Development Bank, 2018; International Bank for Reconstruction and Development, 2021; Rohdewohld, 2022).

This method, therefore, sees participatory government as an opportunity to open up the opportunity for the community. On its part, the D&D Strategy hopes to have an all-inclusive government that would incorporate the diverse needs of different communities through a partnership that draws on civil society and the local level of government (International Bank for Reconstruction and Development, 2021; Rohdewohld, 2022). However, there was an interesting turning point when an important law was passed in 2001 on the Administrative Management of the Capital, Provinces, Municipalities, Districts, and Khans (Royal Kram No. NS/RKM/0508/017) (Royal Government of Cambodia, 2008), which institutionalized an outline for decentralization by entrusting the local level with a lot more powers, with the aim of strengthening it where local levels had to be vested with increased powers, as well as financing from the national level (Eng, 2016).

For instance, other reforms like **Decentralization and Deconcentration (D&D)** reforms in Cambodia have been informed by a solid legal framework, aimed at enhancing the capacities of local government institutions and their officials. The establishment of the National Committee for **Sub-National Democratic Development (NCDD)** in 2008 was instrumental in effecting this

transition to contribute to democratic development through the administration of these reforms. The structural framework upon which this management is based was provided by the **Law on Administrative Management of Capital, Provinces, Municipalities, Districts, and Khans** (Royal Kram No. NS/RKM/0508/017) (Royal Government of Cambodia, 2008). This framework, in combination with ongoing capacity building, ensures that local governments are well placed to execute other modern reforms like digital governance and local sustainable development goals (Rohdewohld, 2022).

Similarly, in 2010, the **National Program for Subnational Democratic Development (NP-SNDD)** was launched, which was strongly supportive of the decentralization process. Its prime objectives are of two folds, namely, strengthening local governments and fostering a sense of responsibility and transparency in the government. It assists the local government to effectively execute development projects as per national guidelines through providing funds as well as technical support (World Bank Group, 2022). Therefore, there is a need for the citizens themselves to participate in developing a project plan as well as execution of projects at sub-national levels through this initiative of NP-SNDD, as this will, in return, help the local government ensure that the local populace remains loyal to it in order to sustain such projects (Rohdewohld, 2022).

All the while, the country of Cambodia has been developing towards a form of democratized and responsive system of governance. Since then, a number of initiatives have taken place, and financial support, as well as capacity building, has been imparted to local governments to help them build capacities in terms of effective city financial management (International Bank for Reconstruction and Development, 2021).

Analyzing the Role of Subnational Administration in Community Development and Resource Allocation in Cambodia

The subnational levels of governance include the provinces, districts, and communes. However, the unofficial subnational administrative levels include the villages as well as the small communities. In most villages or in numerous communities, there is a regional chief that acts as a mediator between the commune level of governance and the relevant authorities (Henny, 2019). All these governance levels have their unique contribution in terms of funding as well as their roles in regard to the aspects of local developments. The Provincial Governor in every district of the particular province is responsible for organizing all the activities in regard to the projects of developments in the respective province (Eng, 2016). The district acts as a mediator in regard to the implementation of policies or initiatives from the subnational level in addressing the needs of the community.

In the context of subnational decentralization, the role of the commune cannot be ignored in the structure of local administration. Similarly, Commune Councils are elected by each commune that carries out the projects and manages local budgets, with a view to making local authorities accountable by forcing them to listen to what people want from them (Rohdewohld, 2022). Planning, mobilization, and spending are all different phases that have been related to subnational budgeting. Besides, local budgets are required to be prepared by the local authorities of the communes and districts to show what their priorities are in terms of development (Eng, 2016).

Further, these are sent to the provincial government level for endorsement. Other key areas of operation of the provincial government include the management of budget funds and how to divide them equally among the various districts and communes in that particular province (International Bank for Reconstruction and Development, 2021). These are administrative organs that are to be found at the provincial and district levels. The purpose of their establishment is to ensure that all the policies and programs meant for operation in these regions are duly executed in order to meet the needs of these regions (Rohdewohld, 2022). This would, in essence, bring integration to its operations with the administration in order to enhance better coordination. It has provided solutions to some serious challenges that are encountered in these regions, including bringing an end to poverty, conserving the environment, and improving healthcare (Eng, 2016). Besides these basic local governments, there is the inclusion of

departments and agencies that are devoted to infrastructure development, agriculture, rural education, and healthcare in Cambodian society.

Method

This research employs a mixed-methods design to determine how subnational budget allocations have contributed to local development in Cambodia. It involves a quantitative design through analyzing secondary data from national and provincial budget documents, reports from the Ministry of Economy and Finance, as well as publications from organizations such as the Asian Development Bank. Qualitative data are obtained through case studies in selected provinces based on different subnational budgeting methods and respective development outcomes. For the purpose of this research, key operational definitions include subnational budget allocation, which refers to funds allocated to the provincial, district, and commune levels for the implementation of local development projects; local development, which refers to improvement in infrastructure, health, education, and the quality of life; governance refers to the process by which the local authorities implement a program, manage available resources, and interact with citizens; and community participation refers to the involvement of locals in the decision-making process regarding the budget allocation.

The data collection method involves the use of quantitative analysis of government documents and qualitative analysis of information gathered through the use of the interview and focus group techniques of community members. Thematic analysis facilitates the development of patterns in the information gathered, specifically in relation to the patterns of governance. This study does not seek to explicitly assess various hypotheses, but it seeks to analyze the relationships between budget allocation and development in a particular community with the hopes of generating the insights necessary to define the recommendations. This study seeks to assess the efficiency of budget allocation in a subnational context.

Result and Discussion

Government Initiatives and Fiscal Strategies for Local Development: Evidence from Cambodia's Subnational Budget Allocation.

In the case of Cambodia, the finance issue is highly relevant to the needs for local development, where the link between the subnational and national level governances is observed (Asian Development Bank, 2024). Therefore, effective management of funds at this stage is fundamental to realizing the development targets at the subnational government levels. Nevertheless, the allocation of funds could be influenced by other factors, including administrative size and the continuing challenges related to the D&D reform processes (Eng, 2016; LY, 2016). At the provincial government, there is an overwhelming need to raise funds owing to the government's expansive role, including the development of critical infrastructure, such as road construction (Ministry of Public Works and Transport, 2020), education services (Ministry of Education, Youth, and Sport, 2024), management of healthcare systems (Annear et al., 2015). Studies demonstrated that the best results in regional management are realized through the establishment of a connection between the allocation of funds and the achievement of results. Therefore, the incorporation of the performance-based budgeting strategy, evaluated at the Cambodian fiscal system, depicts effective budget allocation by providing an accurate representation of the conversion of funds to critical results, including service delivery and infrastructure (International Bank for Reconstruction and Development, 2021).

Most government programs have been transformed into platforms that provide finance for developing local communities through the **National Strategic Development Plan** and the infrastructures that need to be developed in the process of pursuing the set objectives of promoting economic growth as well as the living standard, particularly in the countryside (Royal Government of Cambodia, 2023). The **Education Strategic Plan 2024-2028** assists in providing finance to cover the costs associated with providing training in the commune and rehabilitate school infrastructures to enhance performance and increase the number of enrollments in various districts (Ministry of Education, Youth, and Sport, 2024). Moreover, the **Decentralization and**

Deconcentration Implementation Plan assists subnational authorities to access resources and capacity, hence strengthening the capacity of the local government to respond to citizens' demands (LY, 2016; World Bank Group, 2022).

These complex interrelations between different national Ministries and subnational administrations, however, create obstacles in the reconciliation of interests in relation to local populations with higher national interests. In other words, while coordination of multisectoral policies in different fields of endeavor is carried out under the Ministry of Planning, Ministry of Economy and Finance (Ministry of Economy and Finance, 2019), and other related Ministries, these subnational administrative levels are often characterized by disparities in relation to resource allocation and the promotion of select centers of power, creating imbalances in development (Eng, 2016).

There is a good relationship between the people in the community and civil society, which is important for the success of the city management since it has been noted that success can only be attained in the city if it has good leadership, participation from the people, and enough finance (Rohdewohld, 2022). It has been proved that municipalities that involve the people in decision-making are successful. Moreover, it is worth noting that engaging various stakeholders in the execution and drafting of various development strategies has been observed to foster trust among the public. This is attributed primarily to the enhanced transparency that can be realized by engaging a wider audience regarding various service deliveries (World Bank Group, 2022). These measures aim to ensure that operations by local administration institutions are openly visible to the public, thereby bridging the communication gap between local administration and their respective populations (LY, 2016; World Bank Group, 2022).

Subnational Budget Allocation and Its Impact on Local Development: Insights from Cambodian Case Studies.

The role of fiscal decentralization in the regard of development, for instance, in Cambodia, has been multifaceted, leading to the significant development of social services, infrastructural development, and economic growth (Asian Development Bank, 2018). Apart from these factors, some notable differences have been observed as a result of investment in infrastructural development projects in the community. For instance, there has been a modernized transport system facilitated by initiatives such as Rural Roads Improvement Projects (Climate Investment Funds, 2017). The investment in road development has been instrumental in reducing transportation costs and facilitating trade between communities, which is in line with the sustainable rural economy development framework outlined in the Pentagon Strategy-Phase I (Royal Government of Cambodia, 2023). Such climate-resilient road developments are vital for linking remote communities to economic centers (Climate Investment Funds, 2017). Lastly, infrastructural development creates opportunities for the growth of entrepreneurs within the community, thus an important ingredient for the achievement of development.

Social services have significantly improved through the appropriation of subnational budgetary allocations to the healthcare and education sectors. This led to increased financial investments in healthcare facilities in rural areas to provide more people with access to healthcare facilities, which were previously underserved (Annear et al., 2015). Improved healthcare is evident through the introduction of improved maternal and child healthcare facilities, leading to a reduction in mortality rates (World Bank Group, 2022). Moreover, increased financial investments in the education sector are a determining factor towards increased enrollment rates and the development of efficient learning facilities (Ministry of Education, Youth, 2019, 2024). Thus, they are a strategic tool to empower the future generation of the workforce to contribute towards the development of the nation.

Additionally, job prospects and economic diversification can be achieved through strategic investments made in infrastructure projects. This aspect opens up job creations while enhancing economic diversification. On the other hand, by offering vital social services, subnational authorities can build a stronger, more educated workforce—a key contributor to attracting foreign investments and fostering economic growth (Sokang, 2018; World Bank Group, 2022). At present, the budget processes adopted by subnational authorities are adapted to align with the Sustainable Development Goals (SDGs). Some of the budget priorities are geared towards

attaining gender equality, reducing poverty, and promoting economic sustainability (Rohdewohld, 2022). This aspect clearly indicates that the role of subnational authorities is vital in the quest to achieve success, whether it comes on a local or global sphere. The following sections will discuss case studies with regards to some particular provincial governments:

- ***Case Study 1: Infrastructure Development in Rural Kampong Cham***

A good case of localized development can be seen in the rural infrastructure initiative, which was started in Kampong Cham Province (Climate Investment Funds, 2017). This development plan was spearheaded by the upgrade of the most essential rural infrastructure, such as roads, bridges, and irrigation systems. This upgrade would upgrade the rural infrastructure, hence enhancing the productivity of the transport and agriculture sectors. For example, the rural farmers would be able to benefit from the upgraded infrastructure, making the distance spent on the way to the markets much shorter. This would consequently reduce the transactional costs, leading to improved connectivity, just like the case of the Rural Roads Improvement Project was able to achieve and upgrade the rural infrastructures, making it easier for the people of the region to access the services, thus developing human capital for the people of the region (Climate Investment Funds, 2017; Richardson & Suvedi, 2018).

- ***Case Study 2: Battambang Health Care Improvement***

In Battambang Province, the budget for subnational expenditures has been greatly utilized as a vehicle to overhaul the provision of healthcare services within the region. A key strategy included the implementation of a comprehensive health development program aimed at promoting awareness regarding maternal and child health among the members of the community. This was realized through extensive training for health practitioners and the modernization of health facilities within the region (Annear et al., 2015). In relation to this instance, the source of funds for the respective programs included both the subnational and community budgets (Ministry of Public Works and Transport, 2020). As such, the usage and accessibility rates for health care in the region increased tremendously. However, it is worth noting that the mortality rate for mothers and infants was reduced due to increased attendance to prenatal care clinics and immunization for children. This case study highlights the importance and ease with which health budget implementation can be carried out, particularly concerning health programs with tangible impacts at the village level. Battambang sets the benchmark for other provinces in the country to emulate, particularly concerning the financial decentralization strategy to improve health care in the region (Ministry of Economy and Finance, 2019).

- ***Case Study 3: Education and Capacity Building in Siem Reap***

As observed in the practical application in Siem Reap Province, for instance, the subnational budgets have only been channeled towards the implementation of targeted intervention strategies for the upliftment of learning results in the underserved areas. This strategy is targeted towards the enhancement of learning opportunities in the region and the upliftment of regional capacities (N. Mao, 2015). This is achieved by setting targets to increase the school supply in the region, enhancing teacher supply, and enhancing curriculum materials (Ministry of Education, Youth, 2019). This has not only resulted in the success of closing the gap between the privileged and the underserved regions in the country but has also seen the increased number of enrollments in elementary and secondary schools in the region. There is also the inclusion of the supply of various vocational trainings in the region to resolve the issue of youth unemployment; thus, the upliftment of the community in the region (Miller, 2020).

- ***Case Study 4: Ecological Conservation at Preah Sihanouk***

Lastly, Preah Sihanouk is an example that represents an effective approach to implementing environmental conservation plans through subnational budgets. Such plans prove the potential that subnational governance offers to mitigate environmental factors while promoting long-term developmental sustainability (Barter, 2018). The need to conserve vital

marine life and ecosystems in the province calls for sustainable tourism development as a principal outcome for governance. Decentralized approaches to conservation have been enacted at the community level, for example, through effective waste management initiatives, reforestation drives, and setting up marine sanctuaries (H. Mao & Lee, 2016). This recognition of the need for a healthy environment in order to sustain future economic success has led local authorities to incorporate these projects within the overall financial budget of the region. An added advantage of these projects is that they will not only contribute to the enhancement of the environment but will also contribute to the attractiveness of the region as a destination for ecotourism activities (Asian Development Bank, 2018). This case study, therefore, affirms that it is possible to balance economic benefits with the sustained management of the environment within the short and long term.

The Dual Effects of Local Development Projects: Economic Growth and Inequality in Different Regions

An examination of the effectiveness of various developmental measures instituted in the respective regions of Cambodia indicates that the development of these irrigation systems has come to be recognized as the most influential type of infrastructure with regard to the economy of the region. Although the development of transport infrastructure allows for the efficient marketing of products to the marketplace, the effectiveness of such irrigation systems can be identified as uniquely influential with regard to the capability for productivity by ensuring the access of resources to agricultural production throughout the periods of the wet and dry season (Asian Development Bank, 2018), thereby boosting crop yields and ensuring improved food sovereignty for the nation as a whole (Royal Government of Cambodia, 2023). It is important to note that the improved capability for the marketing of products is undoubtedly a result of the improvements to the road system, thereby promoting a healthy price for these products by the market as a whole (Ministry of Public Works and Transport, 2020).

This efficient transportation system has enabled the smooth flow of trade to the rural population, thus increasing the level of efficiency in trade exchanges and lowering the transaction cost. This increased accessibility fosters the increased level of competition for producers, thus encouraging economic activities based on market demand (Eng, 2016). As a result, producers with higher outputs have the opportunity to reap high returns on their labor efficiency. This economic improvement has also been reflected in the tangible benefits that have been derived from the increased economic activities. For example, some producers have built private fish ponds and wells to improve their household income (Richardson & Suvedi, 2018). This economic advancement also encourages the construction of economic enterprises, such as schools, thus providing clean water for the rural population. This clean water has been reflected in the increased economic benefits for the disease-prone rural population. This economic activity has also reflected the increasing school enrollments in the rural population, thus increasing the potential for earning in the future. However, the recent economic advancements in the different agricultural activities have also been indicated to be distributed unequally among the different socio-economic classes (Eng, 2016; LY, 2016).

Strategic Evaluation of Subnational Administration Budgets: Effectiveness and Pathways for Local Development Reform

Strategic evaluation of the financial resources available to subnational government institutions is a fundamental pillar of local development in Cambodia. Access to further financial resources has therefore heightened the autonomy of local institutions in making appropriate decisions towards the development of local regional development programs (International Bank for Reconstruction and Development, 2021). Efficiency in the regions has therefore been based on the levels of participation, administrative efficiency, and organizational governance. Therefore, participatory approaches in budgeting have been influential in empowering local governments with the promotion of a quality of life based on enhanced services. However, several limitations restrict the efficiency of the framework. These include insufficient financing, lack of knowledge of advanced technology, and lack of subnational statistics (Asian Development Bank, 2018). Additionally, there are various power relationships in institutions that value political loyalty over

technical merit. This, in turn, may contribute to the inefficient use of resources, thereby resulting in the loss of trust among the citizenry (Eng, 2016; LY, 2016). To implement the SDGs, there is a need to have flexible budget systems that embrace good governance principles.

Implication

Essentially, the findings of this particular study indicate the importance of the administration budget in grassroots development within the Cambodian communities. Consequently, the community in Cambodia is empowered through infrastructural development, health, and education resultant from the administration budget. However, complete potential in these aspects will only be realized when the following implications are put into consideration accordingly.

1. ***Enhancing Local Governance:*** First and foremost, the study shows that there is a need to have clear guidelines on the mandates of the local councils. Having clear guidelines will be instrumental in empowering the local councils to make informed decisions that will be responsive to the needs of the people at large.
2. ***Financial Independence and Resource Allocation:*** Secondly, the research showed the significance of financial independence for the administration of the respective regions. Making a guarantee that there is a constant amount of money to be allocated by the respective region is a very significant step towards the realization of the required sustainable development. There is a need to encourage the distribution of the money included in the budget, hence helping significant sectors like healthcare.
3. ***Community Engagement and Participatory Budgeting:*** Thirdly, community engagement and participation in the budgeting process through participatory budgeting is vital in that through the process, the government would ensure that not only would the public be able to know more about their budgeting process but would benefit from this process since the budget would cater to their needs. Therefore, there would be public confidence in the government.

Addressing Systemic Challenges

Further, the study also reveals other systemic issues that may, at times, weaken the potency of the budgets formulated by the subnational governments. These include political interference and bureaucratic inefficiency. To overcome these, dedication would be required towards the improvement of structures of governance and equipping the local administrations with the necessary acumen for efficient governance through training and similar capacity-building exercises that may sensitize the subnational administrations towards the importance of community participation.

Broader Implications for Development

Finally, the implication of the research does not end with the issue in Cambodia but can include the experiences learned as a basis for contributing to the body of knowledge for developing nations that are faced with the same issues as they undergo decentralization and local government processes. This way, the country of Cambodia will benefit by learning the lessons that will expand the body of knowledge concerning the contribution of subnational government budgets towards local development. To again highlight the point, subnational administration budgets contribute towards local development, but the necessity to improve the contribution of subnational administration budgets lies significantly high. Addressing the issue will not just contribute to the outputs of local development but to sustainable development with social equity throughout the nation.

Conclusion

This research also revealed that the money spent at these levels has impacts on economic growth in the nation. However, the persistent process of building capacity among local governments regarding resource management and development of participatory approaches has helped to

enhance improvements in the level of living standards, economic growth, through the investments made in infrastructure development, health care, education. However, there are huge gaps identified regarding the level of development achieved at these levels. This depends on the political willingness of all relevant stakeholders. There are derivable implications from this research that can guide leaders on appropriate means of action. For example, effective subnational budgets can be realized by addressing issues affecting governance at these levels. This can be achieved by observing participatory approaches. This can be useful for being responsive to local population needs and therefore fostering local economic development that can promote social justice.

However, despite the findings in the research, the research had a number of challenges and limitations. One such limitation was the fact that the research was carried out using secondary data and case studies. It is also important to note that the changing political environment in the country, Cambodia, may have a significant effect on the budget and budgeting in the country. It is worth recommending that another study be carried out using another approach, such as the use of quantitative methods alongside the use of qualitative methods to get a better and broader comprehension and understanding of the impacts and effects of sub-national budgeting in the country. Further conducting another case study in the country may be very instrumental in getting a better analysis and comprehension of the effectiveness of the reforms in the country. Using more participants from other actors, such as the community and civil society organizations in the country, may also be very instrumental in getting a better comprehension and analysis of the challenges affecting the reform in the country.

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