



Concept Paper

Project Number: 49041-002
January 2016

Proposed Programmatic Approach, Policy-Based Loan, and Technical Assistance Loan Cambodia: Strengthening Public Financial Management Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 4 November 2015)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.0002466
\$1.00	=	KR4,054.95

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BSP	–	budget strategic plan
CPS	–	country partnership strategy
FMIS	–	financial management information system
ICT	–	Information and Communication Technology
MEF	–	Ministry of Economy and Finance
NAA	–	National Audit Authority
PAM	–	project administration manual
PFM	–	public financial management
PFMRP	–	Public Financial Management Reform Program
PPTA	–	project preparatory technical assistance
RDM	–	rural development ministry
SNA	–	subnational administration
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Cambodia ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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CONTENTS

	Page
PROGRAM AT A GLANCE	
I. THE PROGRAM	1
A. Rationale	1
B. Impact, Outcome, and Outputs	3
C. Program Costs and Financing	3
D. Indicative Implementation Arrangements	3
II. TECHNICAL ASSISTANCE	4
III. DUE DILIGENCE REQUIRED	4
IV. PROCESSING PLAN	4
A. Risk Categorization	4
B. Resource Requirements	4
C. Processing Schedule	4
V. KEY ISSUES	4
APPENDIXES	
1. Preliminary Design and Monitoring Framework	5
2. Problem Tree	8
3. Project Preparatory Technical Assistance	9
4. Initial Poverty and Social Analysis	14
SUPPLEMENTARY APPENDIXES (available on request)	
1. Summary Note: Previous Support for Public Financial Management Reform Program by Asian Development Bank	
2. Project Procurement Classification	

PROGRAM AT A GLANCE

1. Basic Data		Project Number: 49041-002	
Project Name	Strengthening Public Financial Management Program	Department /Division	SERD/CARM
Country	Cambodia	Executing Agency	Ministry of Economy and Finance, National Audit Authority
Borrower	Royal Government of Cambodia		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		60.00
		Total	60.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Organizational development Public financial governance	Some gender elements (SGE)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Knowledge sharing activities Pilot-testing innovation and learning		
Private sector development (PSD)	Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		60.00	
Sovereign Programmatic Approach Policy-Based Lending (Loan):		55.00	
Asian Development Fund			
Sovereign TA loan: Asian Development Fund		5.00	
Cofinancing		0.00	
None		0.00	
Counterpart		1.00	
Government		1.00	
Total		61.00	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. ADB's country diagnostic study and government policy and strategy identify weaknesses in public sector management, including public financial management (PFM) and governance, as constraints to more inclusive growth.¹ Weaknesses in PFM systems result in poor public services delivery. The proposed program, comprising two subprograms, will strengthen PFM systems to improve governance and accountability. It will support the implementation of stage 3: budget policy linkages (2016–2020) of the government's Public Financial Management Reform Program (PFMRP), together with residual activities from stage 1: budget credibility (2005–2007) and stage 2: budget accountability (2008–2015).²

2. **Development problem: Rural–urban disparities in poverty levels.** The poverty rate has fallen from 47.8% in 2007 to 18.9% (14.45% in urban areas, 19.9% in rural areas) in 2012.³ Remaining challenges include an increasing share of poor households in rural areas (increasing from 89% in 2004 to 91% in 2011), despite an overall declining trend in the poverty rate.⁴ Constraints in reducing poverty in Cambodia include weak governance; poor public services; limited productive employment opportunities; low skills; and inadequate social safety nets.

3. **Binding constraints: Weak public financial management and inadequate public service delivery.** Poverty reduction requires the efficient use of public resources, which could be improved through better budget allocation, execution, and accountability. Revenues are gradually improving (estimated at 14.4% of gross domestic product in 2014) but remain low.⁵ Regulatory framework and systems for program budgeting, financial management, procurement, public debt management, and internal and external audits have not been adequately developed. Budget allocations are not fully aligned with sector policies for better targeting of the poor. Capacity in financial management and internal and external audit is gradually improving, but continues to be inadequate. These weaknesses pose significant fiduciary risks, which are accentuated by allocative inefficiency and poor accountability for public expenditures.

4. **Government's sector strategy.** The government's policy and strategy recognize the critical importance of sound PFM for poverty reduction. The PFMRP has been implemented to strengthen oversight of public expenditures for improved public services, particularly those services that target the poor. Progress has been made under stages 1 and 2 in improving budget credibility and introducing a new budget classification system and a new chart of accounts. Progress has also been achieved in public debt management, procurement, and internal and external audit. The financial management information system (FMIS) at the Ministry of Economy and Finance (MEF) has been operational since July 2015.⁶ MEF has strengthened and consolidated policy, the institutional framework, and capacity development under the

¹ ADB. 2014. *Cambodia: Diversifying Beyond Garments and Tourism. Country Diagnostic Study*. Manila; Royal Government of Cambodia. 2013. *Rectangular Strategy III for Growth, Employment, Equity and Efficiency: 2014–2018*. Phnom Penh; and Royal Government of Cambodia. 2014. *National Strategic Development Plan: 2014–2018*. Phnom Penh.

² The PFMRP is being implemented in stages. Stage 4: Performance Accountability is planned for 2021–2025.

³ Ministry of Planning. 2012. *Poverty Estimate in 2012*. Phnom Penh.

⁴ ADB. 2014. *Cambodia: Country Poverty Analysis 2014*. Manila.

⁵ Ministry of Economy and Finance. 2015. *Macro-economic Framework*. Unpublished.

⁶ The FMIS will be extended to line ministries under stage 3 implementation.

previous two stages of the PFMRP, and is preparing for stage 3. Overall, some progress in PFM has been achieved while the reform environment remains complex and challenging.⁷

5. **ADB's past interventions and lessons learned.** Rollout of PFM reforms to line ministries, especially those with responsibility for providing key public services, is crucial to the success of the PFMRP. Recognizing this, the ADB-financed public financial management program cluster supported MEF in implementing stage 2. This included key legislation and measures to strengthen the regulatory framework for public debt management, procurement of goods and services for externally financed projects, financial management, internal audit, and advance work on program budgeting under stage 3.⁸ The program cluster also supported the implementation of stage 2 in three rural development ministries (RDMs).⁹ In addition, ADB supported the National Audit Authority (NAA) in applying international standards for supreme audit institutions.

6. **Sustaining support is critical to overall reform progress.** Informed by lessons from previous ADB operations, the proposed program combines bottom-up support to key line ministries with support for wider PFM reforms. Satisfactory progress is feasible by taking a step-by-step approach, with strong government ownership and supported by development partners. Implementation of such complex PFM reforms requires sustained support and time. Initial achievements in budget credibility and accountability, public debt management, and improved budget policy linkages—as well as institutional strengthening of the NAA—need to be sustained and deepened.

7. **Strengthening public financial management in key line ministries is critical for improving public services.** The three RDMs have key roles in providing public services, particularly for the poor and vulnerable groups. Additional support for these ministries and expansion of the proposed program to three additional ministries will strengthen their institutional framework and capacity in key PFM areas and hence improving public services.¹⁰

8. **Coordination with ADB-supported interventions and development partners.** The proposed program will be coordinated with ADB support for decentralization reforms, particularly in fiscal decentralization.¹¹ It will coordinate with other development partners including the European Union, German international cooperation through (GIZ), Sweden, the International Monetary Fund, the United Nations Children's Fund, and the World Bank.¹²

9. **Program modality.** The proposed intervention, which is a policy-based loan, comprises two subprograms. Building on the accomplishments of the public financial management for rural

⁷ External Advisory Panel. 2015. *Implementation of Public Financial Management Reform Program*. Phnom Penh.

⁸ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 1, and Grant Assistance to the Kingdom of Cambodia for the Public Financial Management for Rural Development Program*. Manila; and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster, Grant for Subprogram 2, and Grant Assistance to the Public Financial Management for Rural Development Project*. Manila.

⁹ The RDMs are the Ministries of Agriculture, Forestry and Fisheries; the Ministry of Rural Development; and the Ministry of Water Resources and Meteorology.

¹⁰ The additional ministries are the Ministry of Education, Youth and Sports; the Ministry of Labor and Vocational Education; and the Ministry of Public Works and Transport.

¹¹ ADB. 2016 (planned). *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kingdom of Cambodia for the Second Decentralized Public Service and Financial Management Program*. Manila.

¹² The multi-donor trust fund managed by the World Bank has mainly supported revenue mobilization and implementation of the FMIS. The current end date of the trust fund is July 2016.

development program cluster, ADB's value addition to the proposed program will (i) facilitate and accelerate the implementation of strategic policy reform initiatives in a complex political economy environment; (ii) strengthen capacity of MEF in adopting and implementing policy and regulatory reforms, and in implementing those reforms at selected key line ministries; and (iii) strengthen external audit. The program will finance the costs of such policy reforms. Subprogram 1 is being implemented from January 2014 to June 2016 and subprogram 2 will be implemented from July 2016 to December 2018. The subprograms will outline actions taken and indicate actions for follow-up around key government reforms. An impact matrix will be prepared together with mitigation measures for undesired short-term impacts on the poor.

B. Impact, Outcome, and Outputs

10. The expected impact will be improved public services with a focus on the poor and vulnerable groups, in line with the government's objective for the PFMRP. The expected outcome will be strengthened oversight of public expenditures to be achieved through three outputs. Output 1 will strengthen the PFM policy framework and systems, with a focus on public debt management, program budgeting, financial management, and internal audit. Output 2 will focus on strengthening program budgeting, financial management, and internal audit in selected line ministries. Output 3 will strengthen external audit to improve accountability for public expenditures. The program will support MEF in adopting and implementing policy and regulatory reforms, and implementing those reforms in the selected key sector ministries. The preliminary design and monitoring framework and problem tree are in Appendixes 1 and 2.

C. Program Costs and Financing

11. The government has requested ADB to provide \$25 million to help finance subprogram 1 and a technical assistance (TA) loan of \$5 million (para. 13). Subprogram 2 is scheduled in 2018 for about \$30 million, subject to confirmation by ADB Management and the government. The proposed program is included in the draft country operations business plan, 2016–2018 for Cambodia.

Table 1: Tentative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (ADF) Program Loan	55.0	91.67
Asian Development Bank (ADF)TA Loan	5.0	8.3
Total	60.0	100.00

ADF = Asian Development Fund, TA = technical assistance.
Source: Asian Development Bank.

D. Indicative Implementation Arrangements

12. MEF will be the executing agency through the PFMRP steering committee and its general secretariat. MEF's Department of Cooperation and Debt Management and the selected ministries will be the implementing agencies. The NAA (as an independent institution) will be the executing agency for the proposed output of strengthening external audit.¹³

¹³ Consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Disbursement under the project loan will be in line with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time) and *Procurement Guidelines* (2015, as amended from time to time).

II. TECHNICAL ASSISTANCE

13. A TA loan of \$5 million is required to support policy advice and capacity development of MEF, selected line ministries, and the NAA. The TA loan will be implemented from December 2016 to December 2018. The government will contribute \$1 million in-kind.

III. DUE DILIGENCE REQUIRED

14. Due diligence will include assessments of (i) program level governance risks (financial management, procurement¹⁴ and anticorruption); (ii) policy, regulatory, capacity, and institutional issues and mechanisms; (iii) costs of implementing reforms and financial sustainability; and (iv) poverty, gender, and social impacts. As no civil works and impacts on indigenous peoples are envisaged, the program is classified category C for all safeguards.

IV. PROCESSING PLAN

A. Risk Categorization

15. The proposed program is categorized as complex as the overall loan amount exceeds \$50 million. The program will be implemented within the context of (i) a sound record of ADB's experience in supporting the PFMRP and strong MEF leadership; (ii) reasonable capacities of the executing and implementing agencies in managing externally financed projects; and (iii) category C classification for all safeguards and category B for procurement.

B. Resource Requirements

16. The program will be prepared through a project preparatory TA for an amount of \$600,000 (Appendix 3). Processing is estimated to require ADB staff inputs of 10 person-months.

C. Processing Schedule

17. The major processing milestones are in Table 2.

Table 2: Proposed Processing Schedule

Milestones	Expected Completion Date
Concept paper clearance	30 November 2015
Fact-finding mission	1-10 April 2016
Staff review meeting	9 May 2016
Loan negotiations	15–16 June 2016
Management approval	8 August 2016
Board consideration	15 September 2016
Loan effectiveness	23 December 2016

Source: Asian Development Bank.

V. KEY ISSUES

18. Coordinating implementation of the complex PFMRP, including capacity development in program budgeting and extension of the FMIS to selected line ministries, will entail strong efforts and the firm commitment of stakeholders.

¹⁴ Assessment of the procurement capacities of executing and implementing agencies will be carried out in line with Appendix 3, para. 1.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impacts the Program is Aligned with.			
Improved public services with a focus on the poor and vulnerable groups, which is aligned with the government's objective for PFMRP, 2005–2025. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Strengthened oversight of public expenditures	Improved rankings for diversion of public funds from 113 rd (2014–2015) to 108 th (2017–2018), wastefulness of government spending from 110 th (2014–2015) to 105 th (2017–2018), and for strength of auditing and reporting standard from 127 th (2014–2015) to 122 nd (2017–2018) among 144 economies.	Global Competitiveness Report, 2014–2015 Global Competitiveness Report, 2017–2018	Lack of political will to enforce comprehensive budget reforms Inadequate technical and staff capacity to implement PFM reforms Elections for commune councilors in 2017 and national election in 2018 is likely to slow down the pace of reforms.
Outputs 1. PFM policy framework and systems in public debt management, program budgeting, financial management, and internal audit strengthened	By 2018 1a. Key stage 3's (of PFMRP) regulations relating to budget entities, financial management (including FMIS), and internal audit implemented 1b. Issuance of <i>prakas</i> (ministerial circulation) on government guarantee for lending by state-owned enterprises; and standard operating procedures 1c. Issuance of sub-decrees on implementing Public Procurement Law	Reports of PFM reform steering committee, development partner committee, technical working group, PEFA 2016, annual external advisory panel, project progress reports, and project review missions covering 1a to 1c	
2. Strengthened program budgeting, financial management, and internal audit in key sector ministries	2a. Improvement in program budgeting (with clear link between sector development policies and corresponding budget allocations and including gender sensitive budgeting) in at least six sector ministries (2015 baseline: 2 ministries) 2b. Implementation of FMIS by selected ministries (2015 baseline: 0)	Reports of PFM reform steering committee, development partner committee, technical working group, PEFA 2016, external advisory panel, project progress reports, and project review missions covering 2a to 2d	Incentives affected by low civil service pay

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>2c. Implementation of performance and compliance audits, procurement audits, and audits of ICT by internal audit departments of selected line ministries (2015 baseline: 3 ministries, except for ICT audit)</p> <p>2d. Inclusion of an analysis of government guarantees and contingent liabilities in annual budget document in 2018 budget law (2015 baseline for information on government guarantees and contingent liabilities in budget law: 0)</p>		
3. Improved accountability through strengthened external audit	<p>3a. Issuance of a sub-decree or guideline for implementation of Audit Law</p> <p>3b. Country audit strategy is prepared and updated annually starting in 2017.</p> <p>3c. Annual audit of at least 20 districts and municipalities (2015 baseline: 0 [NAA])</p>	Reports of PFM reform steering committee, development partner committee, technical working group, PEFA 2016, annual external advisory panel, project progress reports, and project review missions covering 3a to 3c	Limited audit capacity by NAA staff

Key Activities with Milestones (indicative, to be refined during PPTA implementation)

1. Public financial management policy framework and systems in public debt management, program budgeting, financial management, and internal audit strengthened

- 1.1 Support the preparation of budget execution guidelines for program budgeting (June 2017)
- 1.2 Support the preparation of guideline for the operation of budget entities (June 2016)
- 1.3 Finalize *prakas* on government guarantee (December 2016) and standard operating procedures for public debt management (December 2017)
- 1.4 Conduct policy dialogue for the establishment of procurement units in at least six ministries, which are staffed and operational (December 2017); and adoption of a sub-decree on complaints handling mechanisms and procedures (March 2018)
- 1.5 Conduct policy dialogue for the adoption of a sector development policy for technical and vocational education (March 2018)
- 1.6 Support the preparation of guidelines for the environment, and ICT internal audits (December 2017)
- 1.7 Support the internal audit of at least 60% of 2016 expenditures in six ministries (December 2017)

2. Strengthened program budgeting, financial management, and internal audits in key sector ministries

- 2.1 Support the operations of budget entities in at least six line ministries (September 2017)
- 2.2 Improve the quality of program budgeting in six line ministries (December 2017)
- 2.3 Support the implementation of the FMIS in at least six line ministries (June 2018)
- 2.4 Review and support finalization of (i) regulations for internal control of the FMIS, (ii) policy on

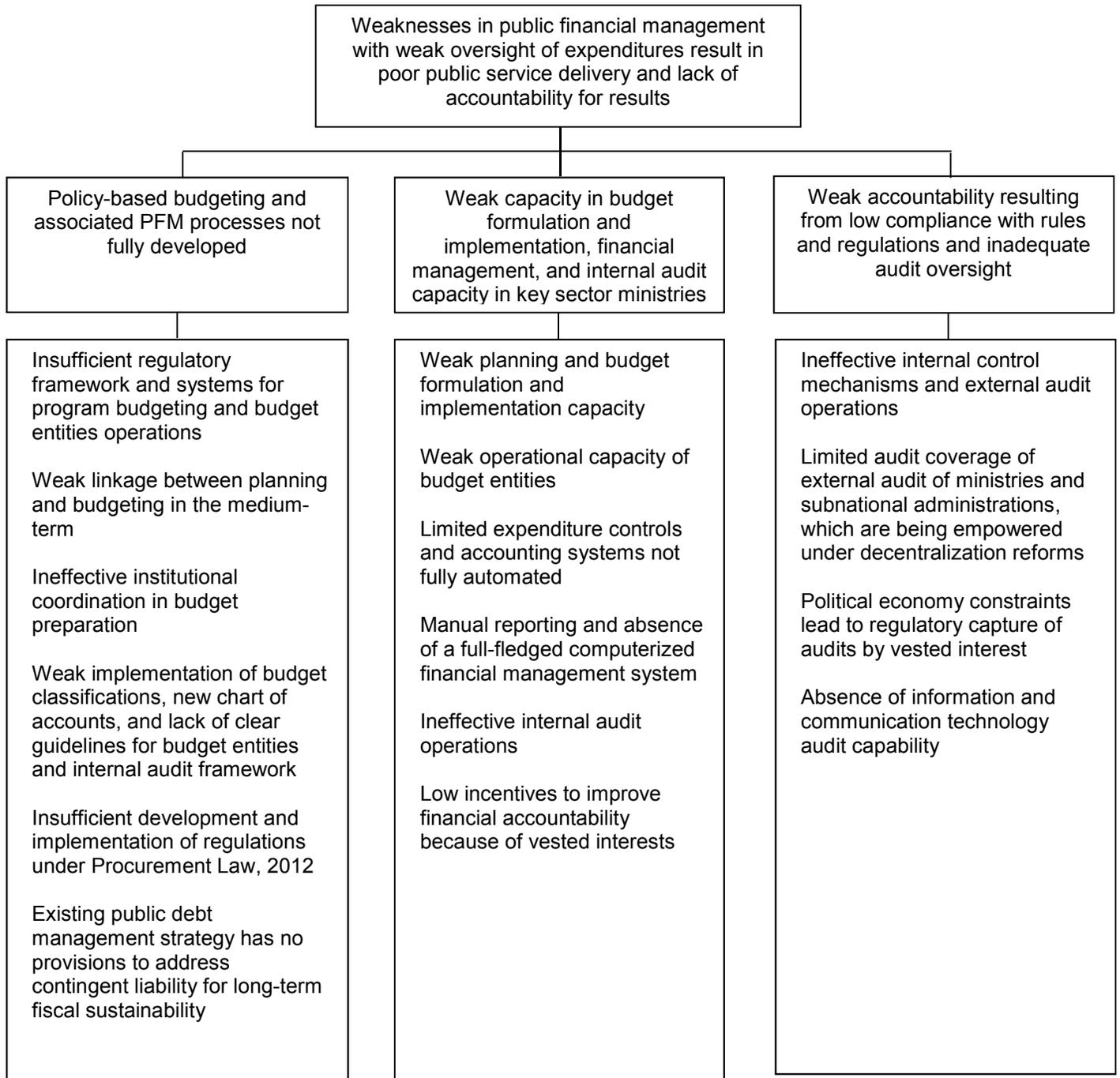
<p>Key Activities with Milestones (indicative, to be refined during PPTA implementation) internal control of ICT audits, and (iii) internal audit manuals for approval by June 2016</p> <p>2.5 Support the implementation of performance and compliance audits, and ICT audits by selected line ministries (December 2017)</p> <p>2.6 Build capacity in key PFM areas (budgeting, financial management, and internal audit) for selected ministries (2016–2018)</p> <p>3. Improved accountability through strengthened external audit</p> <p>3.1 Support the preparation of guidelines for environment audit, and ICT audit (December 2017)</p> <p>3.2 Develop tools and methodology for audit of subnational administrations (September 2017)</p> <p>3.3 Support the annual audit of at least 20 districts and municipalities (March 2018)</p> <p>3.4 Support capacity development of the NAA in ICT audits and audit of subnational administrations, particularly districts and municipalities</p>
<p>Inputs ADB: \$60 million (\$55 million for program loan; \$5 million for TA loan) Government: \$1 million (in-kind)</p>
<p>Assumptions for Partner Financing Not Applicable.</p>

ADB = Asian Development Bank, FMIS= financial management information system, ICT= information and communication technology, NAA=National Audit Authority, PEFA= Public Expenditure and Financial Accountability, PFM= public financial management, PFMRP = PFM reform program, PPTA = project preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank.

^a Royal Government of Cambodia. 2004. *Public Financial Reform Program*. Phnom Penh.

PROBLEM TREE



PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. Project preparatory technical assistance (PPTA) is required to support the Asian Development Bank (ADB) in designing a proposed programmatic approach, policy-based loan, and technical assistance (TA) loan for the Strengthening Public Financial Management Program, including support for refinement of the policy matrices for subprograms 1 and 2.

B. Major Outputs and Activities

2. The PPTA will prepare a report including three outputs which will provide the basis for preparation of report and recommendation of the President to the Board of Directors and linked documents, including the program administration manual. The three outputs are (i) refinement and implementation support for the policy matrices for subprograms 1 and 2; (ii) preparation of the scope of the TA loan; and (iii) preparatory works for program documents (subprogram 1).

3. Under Output 1, the PPTA will review and refine the policy matrices; support implementation of some policy, institutional and regulatory reforms; and assess the costs, economic rationale, sustainability and impacts of those policy reforms and recommend mitigation measures for any adverse effects. Under Output 2, the PPTA will identify policy, institutional and regulatory reforms and capacity development measures under the TA loan in key PFM areas, including in public debt management for the Ministry of Economy and Finance (MEF); program budgeting, financial management and internal audit for selected ministries; and in performance and compliance audits, and audits of information and communication technology and sub-national administrations for the National Audit Authority (NAA). Under Output 3, the PPTA will assess financial management and procurement capacity of executing and implementing agencies; support gender analysis, and review implementation and fund flow arrangements for the subprogram 1. It may also include macroeconomic and fiscal analysis, cost and benefit analysis of the program and the impact of implementation of policy actions and mitigation measures for undesired short-term impacts on the poor. Synergies of the proposed program with current and planned ADB support for decentralization reforms, and ongoing and planned investment projects and sector development programs will be identified and maximized. These major outputs and activities are summarized in Table A3.1.

Table A3.1: Summary of Major Outputs and Activities

Major Activities	Expected Completion Date	Major Outputs	Expected Completion Date
A. For Program Loan^a			
For Output 1, review and refine the policy matrices; support implementation of some policy, institutional and regulatory reforms; and assess the costs, economic rationale, sustainability and impact of those policy reforms and recommend	7 March 2016	Output 1: Refinement and implementation support for policy matrices for subprograms 1 and 2; and Output 3: Preparatory works for the program documents (subprogram 1).	30 March 2016

mitigation measures for any adverse effects.

B. For TA Loan^a

For Output 2, identify policy, institutional and regulatory reforms and capacity development measures under the TA loan in key PFM areas, including in public debt management for MEF; program budgeting, financial management and internal audit for selected ministries; and in performance and compliance audits, and audits of information and communication technology and sub-national administrations for NAA.	7 March 2016	Output 2: Scope of the TA loan; and Output 3: Preparatory works for the program documents (subprogram 1).	30 March 2016
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NAA=National Audit Authority, PFM=public financial management, PPTA = project preparatory technical assistance, TA = technical assistance.

^a Output 3 refers to subprogram 1 (Program and TA loan).

Source: Asian Development Bank staff estimates.

A. Cost Estimate and Proposed Financing Arrangement

3. The PPTA is estimated to cost \$700,000 equivalent, of which \$600,000 will be financed by ADB's Technical Assistance Special Fund (TASF-V). The government will provide counterpart support in the form of counterpart staff, offices, and other in-kind contributions. The detailed cost estimate is presented in Table A3.2.

Table A3.2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (10.5person-months) ^b	390.0
ii. National consultants (14.0 person-months)	50.0
b. International and local travel	35.0
c. Reports and communications	10.0
2. Workshops, training, seminars, and conferences ^c	37.0
3. Miscellaneous administration and support costs	18.0
4. Contingencies	60.0
Total	600.0

- ^a Financed by the ADB's TASF-V. The government will provide counterpart support in the form of counterpart staff, offices, and other in-kind contributions in an estimated amount of \$100,000 (\$80,000 of staff time and \$20,000 of office spaces).
- ^b Limited inputs of a macroeconomist for macroeconomic and fiscal analysis, and an economist for cost and benefit analysis and the impact of implementation of policy actions, will be considered during the project preparatory technical assistance.
- ^c Workshops, training, seminars, and conferences in which payments will be channeled through the consultant's contract. Any advances provided for this purposes will be liquidated within 30-day, to ensure timely closure of the PPTA.

Sources: ADB staff estimate.

B. Consulting Services

4. The PPTA will be implemented until 31 December 2016 (Table 3.4). Given the highly specialized skills requirement, consultants will be engaged individually in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). About 10.5 person-months of intermittent inputs of international consultants and 14 person-months of national consultants will be required for the PPTA implementation as reflected in Table A3.3. Limited inputs of a macroeconomist for macroeconomic and fiscal analysis, and an economist for cost–benefit analysis and the impact of implementation of policy actions, will be considered during PPTA implementation.

Table A3.3: Summary of Consulting Services Requirement

Positions	Person-Months Required
International	
Institutional PFM/budget management specialist	5.0
Financial management and accounting specialist	4.0
Audit specialist	1.5
National	
PFM/budget management specialist	7.0
Financial management and accounting specialist	5.0
Audit specialist	2.0

PFM = public financial management.

Source: Asian Development Bank staff estimates.

5. The outline terms of reference for the PPTA consultants are described in paras. 6–9.

6. **International public financial management and budget management specialist and team leader (5 person-months).** The specialist will have (i) an advanced university degree (master's degree or equivalent) preferably in economics or public sector management and PFM; (ii) at least 10 years of work experience (particularly in developing countries and preferably in Cambodia) in PFM; (iii) demonstrated experience in team leadership, project management, evaluations of country diagnostic and sector studies, and complex projects and program preparation and design; and (iv) excellent interpersonal and communication skills. The specialist will (i) review and refine proposed policy, institutional, regulatory, and other reforms; (ii) support the formulation and adoption of these reforms; (iii) assess the capacity development needs in target PFM areas for selected ministries, public debt management for MEF, and external audit for the NAA; (iv) assess the fiduciary risks (financial management, procurement, and corruption risks of executing and implementing agencies) and prepare a risk management plan; (v) assess the capacity of the executing and implementing agencies in gender-responsive budgeting, and recommend capacity development measures; (vi) review and confirm the political economy and commitment of target ministries to implement stage 3 of the PFMRP; (vii) estimate costs of implementing reform as the basis for costing the program and project loan components and

financial sustainability; and (viii) lead and supervise consultant team members. Key outputs will include the (i) refinement of the proposed policy matrices and support the adoption of some policy, institutional and regulatory reforms (including those reforms for implementation of stage 3 of the PFMRP) for subprograms 1 and 2; and (ii) draft report (inception, and final reports) that will include findings, and recommendations on key reforms and capacity development needs under stage 3 to provide the basis for preparation of report and recommendation of the President to the Board of Directors and linked documents (including PAM) for the TA loan .

7. International financial management and accounting specialist (4 person-months).

The specialist will have (i) advanced qualifications (preferably master's degree or equivalent) in public sector accounting; and (ii) at least 10 years of work experience (particularly in developing countries and preferably with Cambodian experience) of public sector budget, accounting, and financial management systems and procedures, including extensive experience in developing and using computerized financial management information system (FMIS). Reporting to the international PFM and budget specialist, tasks of the consultant will include (i) reviewing the proposed policy, institutional, and regulatory reforms under stage 3 of the PFMRP with regard to financial management, accounting and reporting; (ii) supporting the formulation and adoption of these reforms; (iii) reviewing the institutional and capacity development activities for the TA loan component with regard to financial management, accounting and reporting; (iv) reviewing and confirming the capacity, political economy, and commitment of target ministries with regard to financial management, accounting and reporting; and (v) together with the international audit specialist, providing draft inputs for financial due diligence (following ADB guidelines and template), which will provide the basis for financial and disbursement arrangements for the proposed project. Key outputs will include contributions to the overall report on policy and institutional development, identification of capacity development needs on financial management for selected ministries, and financial and disbursement arrangements for the proposed program.

8. International audit specialist (1.5 person-months). The specialist will have (i) advanced qualifications (preferably master's degree or equivalent) in public sector accounting, experiences in internal and external audits, a professional internal audit certification (such as being a certified internal auditor), and a professional accountancy qualification (such as a Chartered Accountant (CA), Association of Chartered Certified Accountants (ACCA) or Certified Public Accountants (CPA)); (ii) at least 10 years of work experience (particularly in developing countries and preferably with Cambodian experience) in public sector accounting, budget systems, and internal and external audits; and (iii) substantive experience in capacity development for internal and external audits in the public sector. Reporting to the PFM and budget management specialist, the international audit specialist's tasks will include (i) reviewing the proposed policy, institutional, and regulatory reforms regarding internal and external audits and internal control; (ii) supporting the formulation and adoption of these reforms; (iii) reviewing the institutional and capacity development needs (in internal audit for selected line ministries, and external audit for the NAA) for the TA loan component; (iv) reviewing and confirming the political economy constraints and commitment of target ministries and the NAA; and (v) together with the international financial management and accounting specialist, providing draft inputs for financial due diligence (following ADB guidelines and template). Key outputs will include contributions to the overall report on policy and institutional development; and identification of capacity development needs in internal audit for selected ministries and external audit for the NAA.

9. **National consultants.** Three national consultants (14 person-months) will be engaged to support the international consultants. Detailed terms of reference will be developed jointly with the terms of reference of related international consultants.

C. Implementation Arrangements

10. ADB, through the Cambodia Resident Mission, will be the executing agency of the PPTA. The government is expected to provide counterpart staff time and administration support in the form of in-kind contribution. The PPTA proceeds will be disbursed in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The proposed TA processing and implementation schedule is in Table A3.4.

Table A3.4: Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Concept paper clearance	November 2015
Commencement	January 2016
Physical completion	December 2016
Financial closure	June 2017

Source: ADB staff estimate.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Cambodia	Project Title:	Strengthening Public Financial Management Program
Lending/Financing Modality:	Program and TA Loan	Department/ Division:	Cambodia Resident Mission/Southeast Asia Regional Department

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

Poverty reduction is the overarching objective of the Rectangular Strategy Phase 3, which is the key policy document of the government, along with the National Strategic Development Plan, and the Asian Development Bank (ADB) country partnership strategy.¹ These three documents have identified public financial management (PFM) as a key pillar to promote good governance through improvements in the accountability of public expenditures for broad-based and sustainable economic growth, and poverty reduction. The government launched the Public Financial Management Reform Program (PFMRP) in 2004. As a multi-platform reform program, the PFMRP is being implemented in stages: stage 1: budget credibility (2005–2007); stage 2: financial accountability (2008–2015); stage 3: budget policy linkages (2006–2020); and stage 4: performance accountability (2021–2025). The proposed program will support about six target ministries (para. 7, Concept Paper) to implement stage 3: budget policy linkages, including the introduction of program budgeting, improved budget preparation and execution, financial management and accounting, and internal and external audit. Linking budget to policy and programs with better budget management will improve public sector efficiency and accountability. It will also support broad-based economic growth, poverty reduction and boost the welfare of citizens.

B. Poverty Targeting

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The program will support target ministries to improve planning, budget preparation and expenditure management, which is expected to improve public service delivery and livelihoods of the general population.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. More efficient public expenditure will improve public service delivery, particularly those services provided by the six line ministries to be targeted.
2. Impact channels and expected systemic changes. Alignment of the budget with sector policy and programs will improve government implementation and monitoring of expenditures, particularly those that target the poor and vulnerable groups.
3. Focus and resources of the PPTA or due diligence. The PPTA will review the capacity development needs of target ministries in key PFM areas so that budgets and expenditures reflect sector policy and priority programs, support poor and vulnerable groups of the population, and strengthen budget accountability.
4. Specific analysis for policy-based lending. The program loans under which the government will adopt and implement policy, legal, and regulatory reforms for improved budget management and accountability, and public sector efficiency, will contribute to achievement of broad-based economic growth, poverty reduction and improve welfare of citizens. Poverty reduction is a key objective of the proposed program and TA loans.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Target ministries' capacity for gender-based budgeting will be assessed and supported to ensure that gender aspects are taken into account in planning, budget preparation, financial management, and performance reporting.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No

Program and performance based budgeting is expected to improve resource allocation for gender equity, particularly in the target ministries.. A gender action plan will be prepared during the PPTA.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No

Improved program and performance based budgeting is expected to improve outcomes for gender equity in the target sectors.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

II. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Officials of the Ministry of Economy and Finance; target ministries; the National Audit Authority (NAA); development partners; nongovernment organizations (NGOs) (NGO Forum [on budget transparency], Transparency International (Cambodia), and NGOs active in agriculture, education, health, rural development, and water utilization) will be consulted (through focus group discussion) during the project design.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

The program will support target ministries to improve planning, budget preparation and expenditure management, which is expected to improve public service delivery and livelihoods of the poor and vulnerable groups. Stakeholders including active NGOs in agriculture, education, health, rural development, and water utilization will be consulted for inputs, appropriateness, and relevance of the proposed program.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

Information generation and sharing Consultation Collaboration Partnership
(Medium (M))

NGO Forum, which is active in budget transparency assessment; Transparency International (Cambodia); and active NGOs in agriculture, education, health, rural development, and water utilization will be consulted (through focus group discussions) during the project design for inputs, appropriateness, and relevance of the proposed program.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

Effective consultations during project design will enable the target ministries to implement programs in which the poor and vulnerable groups are better targeted. Consultations with stakeholders will be held during the design of the TA loan including with development partners, and NGOs that are active in PFM reform and in agriculture, education, health, rural development, and water utilization for inputs, appropriateness, and relevance of the proposed program.

III. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

The program and TA loans support policy and capacity development. No resettlement is required or envisaged.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

<p>1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the project require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?</p> <p><input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social Impact matrix</p> <p><input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
IV. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the project design?</p> <p><input checked="" type="checkbox"/> Creating decent jobs and employment <input checked="" type="checkbox"/> Adhering to core labor standards <input checked="" type="checkbox"/> Labor retrenchment</p> <p><input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability</p> <p><input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____ N/A _____</p> <p>2. How are these additional social issues and risks going to be addressed in the project design?</p> <p>The above issues will be analyzed during the design of the TA loan.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>No particular specialist will be identified. However, the above aspects will be considered in the project design.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis and participation plan during the PPTA or due diligence? A gender action plan will be prepared.</p>

¹ Royal Government of Cambodia. 2013. *Rectangular Strategy III for Growth, Employment, Equity and Efficiency: 2014-2018*. Phnom Penh; Royal Government of Cambodia. 2014. *National Strategic Development Plan: 2014-2018*. Phnom Penh; and ADB. 2014. *Cambodia: Country Partnership Strategy (2014-2018)*. Manila.