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ANNEX

to the Commission Implementing Decision on the financing of the annual action plan in favour of Cambodia for 2022

Action Document for EU-Cambodia Partnership for Public Financial Management Reform (Stage IV)

ANNUAL PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plans in the sense of Article 23 of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	**EU-Cambodia Partnership for Public Financial Management Reform (Stage IV)** OPSYS number: ACT-60558 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)/ Overseas Association Decision/European Instrument for International Nuclear Safety Cooperation Regulation
2. Team Europe Initiative	Yes (Sweden) Team Europe Initiative (TEI-2) "Build back better – green energy and industrial value chains"
3. Zone benefiting from the action	The action will be carried out at the following location: Cambodia
4. Programming document	Multiannual Indicative Programme 2021-2027 for the European Union's cooperation with the Kingdom of Cambodia
5. Link with relevant MIP(s) objectives/expected results	Priority Area 3: Good Governance, specific objective 1 related to the Public Finance Management Reform (PFMR) to improve efficiency, transparency and accountability in management of public funds to improve public service delivery.
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	Good governance at all levels (DAC 151)
7. Sustainable Development Goals (SDGs)	Main SDG : 16 - Peace, justice and strong institutions Other significant SDGs: SDG 17 - Partnerships for the goals SDG 1 – No poverty SDG 8 – Decent work and economic growth SDG 3 - Good health and well-being SDG 4 - Quality education SDG 13 - Climate Action

	SDG 5 – Gender Equality			
8 a) DAC code(s) [1]	15111 – Public finance management – 100%			
8 b) Main Delivery Channel @	Recipient Government – 12000			
9. Targets[2]	☐ Migration ☐ Climate ☒ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☐ Education[3] ☒ Human Rights, Democracy and Governance[4]			
10. Markers [5] **(from DAC form)**	**General policy objective** @	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	☒
	Aid to environment @	☒	☐	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Trade development	☒	☐	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction @	☒	☐	☐
	Inclusion of persons with Disabilities @	☒	☐	☐
	Nutrition @	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity @	☒	☐	☐
	Combat desertification @	☒	☐	☐
	Climate change mitigation @	☒	☐	☐
	Climate change adaptation @	☒	☐	☐
11. Internal markers[6] **and Tags**[7]:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @	☐	☒	☐

[1] DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab 'purpose codes' in the following document: http://www.oecd.org/dac/financing-sustainable-development/development-financestandards/dacandcrscodelists.htm
[2] Actual contribution to targets will be confirmed ex-post based on a standardised methodology.
[3] This target is specific to INTPA. If the action is marked as contributing to the Education target, please make sure the target on "Social inclusion and Human Development" is also marked.
[4] Thematic target for geographic programmes (at least 15%) in delegated act.
[5] For guidance, see https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/ (go to "Data collection and resources for reporters", select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive).
If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).
[6] The internal markers have been created to report on the implementation of the Commission's own policy priorities in areas where no DAC reporting tool is available. For the sake of consistency and comparability, the methodology is equivalent to the DAC markers, with three possible positions (main target, significant target, not targeted)
[7] Methodology for additional tagging providing granularity on internal markers is under development.

	Tags: digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services		☐ ☒ ☐ ☐ ☐ ☐	☐ ☐ ☐ ☐ ☐ ☐
	Connectivity @ Tags: digital connectivity energy transport health education and research	☒	☐ ☐ ☐ ☐ ☐ ☐	☐ ☐ ☐ ☐ ☐ ☐
	Migration @ (methodology for tagging under development)	☒	☐	☐
	Reduction of Inequalities (methodology for marker and tagging under development)	☐	☒	☐
	Covid-19	☒	☐	☐
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2022-14.020131-C1-INTPA Total estimated cost: EUR 34 000 000 Total amount of EU budget contribution: EUR 31 000 000, of which: - EUR 20 000 000 for budget support (Sector Reform Performance Contract) and - EUR 11 000 000 for complementary support[8]. This action is co-financed in joint co-financing by the Swedish International Development Cooperation Agency (Sida)[9] for an estimated amount of EUR 3 000 000.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing[10]	**Direct management** through: - Budget Support: Sector Reform Performance Contract - Twinning Grants - Procurement			

- [8] of which:
  - i. EUR 2 400 000 for procurement
  - ii. EUR 1 000 000 for an Administration Agreement with the World Bank
  - iii. EUR 2 000 000 for a Twinning project with the National Institute of Statistics (NIS) of Cambodia as a beneficiary
  - iv. EUR 2 000 000 for a Twinning project with the Ministry of Economy and Finance of Cambodia (General Department of Taxation) as a beneficiary
  - v. EUR 3 500 000 for a Contribution Agreement with Swedish International Development Cooperation Agency (Sida)
  - vi. EUR 100 000 for evaluation, audit and verifications

[9] Sweden will be a partner of the Team Europe Initiative (TEI-2) "*Build back better – green energy and industrial value chains*", which this action will also support.

[10] Art. 27 NDICI

	Indirect management with: - World Bank (WB) - Swedish International Development Cooperation Agency (Sida)

1.2. Summary of the Action

The National Rectangular Strategy IV (RS IV) 2019-2023 has at its core a comprehensive good governance reform programme. In line with the RS IV, as well as with the objectives of the Government Public Financial Management Programme, improvement in economic governance is one of the most important factors for inclusive and sustainable growth in Cambodia.

Improvement in economic governance will therefore also help to foster better results in all the other priorities of the MIP. Building on the previous MIP (2014-2020), the implementation of the Public Financial Management (PFM) Reform Program will allow to enhance fiscal discipline, further increase domestic resource mobilisation and improve policy-based budgeting and allocation of financial resources for an improved service delivery to citizens

Despite some improvements in Public Finance Management, the global level of efficiency gap can still be further reduced. Strengthening efficiency in public spending, revenue mobilisation and service delivery through progressive and structured reforms are the keys to the success for meeting the SDGs.

The proposed Action is for continued strategic partnership with the Ministry of Economy and Finance (MEF) MEF through support to the implementation of the national PFM Reform Programme (PFMRP) in the transition from its 3rd stage, the Consolidated Action Plan 3 (CAP3) 2017-2020 and the Consolidated Action Plan 3+2 (CAP3+2) 2021-2022, which is focused on the establishment of budget-policy linkages, to its 4th stage (future CAP4 2022-2025) that will aim at performance accountability (performance informed budgeting).

The proposed Action contributes to the MIP Priority Area 3 (Good Governance) and to its Specific Objective 1 to improve efficiency, transparency and accountability in management of public funds to improve public service delivery. Good governance underpins the two other priority areas of Green growth and decent jobs and Education and skills development; without a better functioning public financial management, the potential for a transformative impact of all interventions will be at risk.

The Action's overall objective is to promote sustainable, inclusive and climate neutral economic recovery post-Covid-19. The specific objectives are (1) Enhanced budget credibility; (2) Enhanced financial accountability and transparency; (3) Strengthened efficient budget-policy linkages, including on Climate Change and Gender
(4) Capacity development for PFM and service delivery. The Action will focus in particular on domestic resource mobilisation, revenue management (administration and policy), budget comprehensiveness and transparency, public investment management, public procurement, digitalisation through the financial management information systems (FMIS), accounting and reporting, and national statistics.

It is proposed to continue using the budget support modality together with a strong policy dialogue and complementary measures through delegated cooperation and direct technical assistance. The Action will also introduce Twinning projects for the first time in Cambodia to support capacity building and inter-institutional cooperation.
This Action is expected to contribute to the achievement of SDGs 16 (Peace, justice and strong institutions) and 17 (Partnerships), and indirectly to most other SDGs such as SDGs 3 and 4 on Good health and Quality education which require substantial quality investment in people and infrastructure but also to SDG 1 (No poverty), SDG 8 (Decent work and economic growth), SDG 13 (Climate Action) and SDG 5 (Gender equality), through green and gender budgeting.

2. RATIONALE

2.1. Context

Cambodia, still a Least Developed Country (LDC) and, since 2015, a lower middle-income country (LMIC), has been one of the most dynamic economies in the Asia-Pacific region between 2000 and 2018, achieving 7% yearly economic growth on average. Covid-19 has hit Cambodia hard, with the GDP contracting by 3.1% in 2020, followed by a recovery with GDP growth of 3.1% in 2021. Real GDP growth is projected to reach 4.5/5.1% in 2022 and to gradually recover to reach 6.5% on average.

In February 2020, due to serious and systematic concerns related to human rights in the country, the European Commission took a decision to partially withdraw the trade preferences under the Everything But Arms (EBA) scheme for Cambodia, which had sustained growth and job creation during the past years. Enhanced engagement with the Cambodian government remains critical for the EU to promote a sustainable and more equitable economic recovery and to use available avenues of policy dialogue with the government to promote democracy and human rights.

In recent years, China has increasingly established more influence in Cambodia, providing now almost a quarter of total FDI under its Belt and Road Initiative. The country is aware of the risks of overdependence on China and realises the advantages of an integrated ASEAN, and the EU market and expertise remain attractive both for the government, civil society at large and the private sector. While working with Cambodia on its socio-economic recovery, there are good entry points for the EU to ensure impact and promote its interests and values.

EU's engagement in PFM is a building-block for all the priority areas of the MIP and for delivering the Team Europe Initiatives (TEIs): "*Sustainable landscapes, forests and agriculture*" and "*Build back better – green energy and industrial value chains*".

Nurturing the partnership with the Ministry of Economy and Finance (MEF) is a crucial entry point for broader dialogue with Government in the political context and it is strategically useful to the MIP's overall objectives. The EU will be able to engage with MEF on reforms of strategic value, including in sensitive areas such as public investment management, public procurement, budget transparency, equitable taxation and climate change. PFM reforms strengthen the rule of law, reduce corruption, and reinforce accountability to the citizens.

Under the MIP 2021-2027 the EU committed to support the Government and Civil Society (Sector 1 of the MIP) and to continue contributing to some of the key aspects to strengthen the governance sector and democracy in Cambodia. As a priority, the EU will continue to work with Cambodia in support of the Public Finance Management (PFM) reform (SDGs 16 and 17), that, since the launch of Stage 1 of the PFM reform in 2005, has led to significant improvement in revenue mobilisation, better alignment of expenditure with national priorities, availability of financial information for timely decisions and increasing accountability and transparency. Moreover, PFM improvements have led to increased budget credibility and predictability, which has been instrumental to restore macroeconomic stability and resilience to external economic shocks, which in turn has greatly supported economic growth and enabled a rapid response by the government to the COVID-19 crisis. Future priorities under PFM will include revenue administration, streamlining and standardization of internal controls, strengthening public procurement and public investment management, as well as the development of accountability systems. An effective PFM Reform Programme is also key for the EU continuing sector budget programmes. To ensure that the progress in PFM is further strengthened, it is important to improve efficiency of the public administration. The MIP 2021-2027 has allocated an additional EUR 37 million to reforms in Governance, including support to Public Finance Management Reform (PFMR) is to improve efficiency, transparency and accountability in management of public funds to improve public service delivery. The MIP also includes measures in favour of civil society.

Despite some progress, gender inequalities and gaps are still high in Cambodian politics and decision-making circles, the formal economy, and in upper secondary and tertiary education.

Every stage of the PFM reform corresponds to a Consolidated Action Plan (CAP) to which Development Partners refer as the Government-owned master plan. The ongoing (CAP3) is expected to ends in 2022. The following phase of the reform (post 2022), to be launched in 2023 (CAP4),will be defined by the MEF on the basis of the Public Expenditure and Financial Accountability (PEFA) assessment finalised in June 2021.

The Action will contribute to the implementation of the Joint European Development Cooperation Strategy for Cambodia 2021-2027, notably Priority 1 "strengthen democratic accountability, integrity and effectiveness of Cambodia's public institutions, systems and services at all levels ('supply side of governance'), with particular focus on major governance reform programmes, including corruption". Under Priority 1, the European partners agreed to support the Public Financial Management (PFM) Reform Program to enhance fiscal discipline, raise efficiency and transparency on budgeting and accountability, increase domestic resource mobilisation, improve allocation of financial resources for a better-quality service delivery, citizen's participation and Parliamentary oversight. The European Partners agreed to support a greater involvement of line ministries in the implementation of the reform program. Under Priority 2, European partners agreed to foster democratic participation, respect for human rights, gender equality, and support an enabling environment for civil society in Cambodia ('demand side of governance').

2.2. Problem Analysis

The EU will continue to support of the **Public Finance Management (PFM)** reform as part of its commitment to contribute to strengthening the governance sector and democracy in Cambodia. Improving PFM is a key objective of Cambodia's national development strategy (Rectangular Strategy IV and National Strategic Development Plan 2019-2023).

Following the completion of the PEFA assessment in June 2021 and in line with Development Partner's recommendations, the MEF has decided to extend the existing Consolidated Action Plan 2017-2020 (known as CAP 3) to also cover 2021 and 2022. This will enable to address some existing weaknesses in the PFM reform before embarking in a new Consolidated Action Plan (CAP4) that should focus in strengthening accountability systems. This decision was taken to accommodate delays accumulated due to lockdowns and in general the disruptions caused by COVID-19 and by the measures put in place in 2020 and 2021 to manage the outbreaks. The CAP 3 still focuses on a multi-year perspective on fiscal planning, implementation of programme budgeting to all line ministries and implementation of FMIS. This aims at improving the link between sector strategies and national budget allocations.

Key strategies encompassed in the CAP3 and the future CAP4 include the overarching "Budget System Reform Strategy 2018-2025" (BSRS). The BSRS endorses a shift from the originally planned "performance-based budgeting" to the more realistic "performance-informed budgeting"[11]. The MEF has also developed a Public Procurement Reform Strategy 2019-2025, which runs in parallel to the Budget System Reform Strategy. Overall, the procurement reform aims at making the procurement process more competitive, efficient and transparent, and to promote the execution of public procurement through granting more extensive authorizations to the procurement implementing institutions. The MEF is also implementing the Public Investment Management Strategy 2019-2023, the Public Debt Management Strategy 2019-2023, the FMIS Phase III (2021-2025) and FMIS Change Management Strategy, the Strategic Capacity Development Plan 2021-2025 and the Revenue Mobilization Strategy 2019-2023.

Cambodia's vulnerability to Climate Change is characterised by frequent flooding and irregular rainfall, coupled with an agrarian based economy, limited human and financial resources, insufficient physical infrastructure, and limited access to technologies. Green and resilient investment is a main part of countries' commitments under their Nationally Determined Contribution (NDC) and in line with overarching national climate strategies. Substantial public investment will be necessary to build public infrastructure that makes economies more resilient to climate change and related natural disasters. Against this backdrop, a priority for Cambodia is to manage public investments efficiently and effectively.

While in principle strengthening integration of gender equality objectives into budget processes and documentation is well aligned to PFMRP objectives, and there is a commitment from the Cambodian government to improve gender-responsive budgeting (GRB), GRB has not explicitly been integrated into its latest "Budget System Reform Strategy (2018-2025) yet. The CAP3 included a reference to "highlight poverty reduction and gender issues in Programme Budgeting & Budget Strategic Plans (BSP)". However, in the recent March 2021 update establishing ("CAP3+2") this reference has been deleted. As part of the policy dialogue in the context of this action the EU will seek to ensure that future PFM reform strategies, and in particular the CAP4, make clear references to the importance of Gender Responsive Budgeting (GRB) and to use PFM policy and tools to ensure gender equality and the empowerment of women and girls.

The FMIS project is a building block of the whole-of-government digital policy in Cambodia. The FMIS is seen as an important part of the future digital Government architecture.

[11] With performance-informed budgeting, resources are not *directly* related to performance, as was envisaged in the previous budget reform strategy, but performance information is used in the budget allocation process.

Improvement of Public Financial Management has the potential of increasing domestic revenues and service delivery systems and to address key policy priorities such as climate change, gender responsive policies and budgeting and the inclusion of vulnerable groups, including persons with disability. To inform government economic and budget decisions, as well as to increase transparency for the citizens, it is key to continue supporting the improvement of quality of national statistics, including on vulnerable people and gender disaggregated.

- Building on the experience from the previous Sector Reform and Performance Contracts (ACA/2015/037-958; ACA/2018/ 040-874), this Action will include complementary technical assistance to respond to government demands for more capacity building to be provided directly by the EU. In addition to that, complementary actions will include a number of activities implemented with different implementation modalities. For details, please see section 4.4.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:
Stakeholders include general departments of MEF, the General Steering Committee (GSC) for PFM, financial departments in line ministries and provincial treasuries.

The governance structure of the PFMRP and the different departments of the MEF (duty bearers) are the direct targets of EU support.

Indirect stakeholders are the secretariats of other key institutional reforms linked to progress in the PFM reform, line ministries, sub-national administrations, as well as the National Audit Authority and the Parliament. In the long run, all ministries and agencies will benefit from the reform programme. Cambodian people (in their capacities as public users, citizens and taxpayers) are the ultimate beneficiaries of the reform programme.

The National Institute of Statistics (NIS) is responsible for national statistical systems which are key to inform and improve public financial management, notably the budgeting process and monitoring and evaluation of public policies.

The National Audit Authority (NAA) is the supreme audit institution. Its audit activities are central to strengthening Government accountability for management of public finance.

Civil society organisations (CSOs) including women organisations and minorities rights organisations have a key role in carrying out concrete and visible actions towards enhancing budget and audit transparency, anti-corruption, and fostering public participation and representing the citizens (rights-holders) voices in the dialogue on policy and budget issues.

In order to support these activities, the European Union, Swedish International Development Cooperation Agency (Sida) and the Department of Foreign Affairs and Trade (DFAT, Australia) decided in 2006 to coordinate their funding efforts though a trust fund managed by the World Bank. The harmonised funding helped supporting the overall reform until 2022. In 2015, EU support to the PFM reform began to be implemented under budget support modality and a joint programme with Sida "*Partnership for Accountability and Transparency*" (Phase I 2016/2019 (ACA/2015/037-958) and Phase II (2020/2022) ACA/2018/ 040-874).

Complementary to EU support to the PFMRP, other DPs and institutions such as the International Monetary Fund (IMF-Regional Technical Assistance Centre), the Asian Development Bank (ADB), and Japanese International Cooperation Agency (JICA) are providing direct support to the Government:

- JICA provides support to public financial management reform since a number of years, but it recently focused on the area of customs reform. Among the key ongoing activities, JICA is working on a strategic and internationally recognized tool to measure the actual time required for the release and/or clearance of goods (Time Release study 2021), on a cross-border management study, on customs publication printing and also capacity building of General Department of Customs and Excise of Cambodia (GDCE) officers.

- IMF finances two technical advisors to MEF in the fields of accounting, budget execution, macro-economic analysis and custom revenues and procedures. IMF Fiscal Affairs Department (FAD) and Technical Assistance Office in Thailand (TAOLAM) provides technical assistance (TA) missions to monitor and advise on progress of the FMIS Phase II roll-out and define the scope of the IMF's support related to this initiative. Since August 2021 the IMF has also started to provide TA on Gender Responsive Budgeting to the Ministry of Economy and Finance (MEF). The

IMF also engaged in the preparation of a Public Investment Management Assessment (PIMA) in 2018/9 and offered to support a repeat of the exercise, including the climate change module.

- ADB is working with Cambodia to improve public services with a focus on the poor and vulnerable groups. The project is strengthening oversight of public expenditures with a focus on public debt management, program budgeting, financial management, and internal audits. ADB has an ongoing policy-based concessional loan on strengthening Public Financial Management Programme of USD 30 million which is expected to end in 2022, subject to the approval of a new PFS law. ADB is planning a second phase of the same project, still in the form of a policy-based highly concessional loan, and increasing the amount to USD 40 million.

- UNICEF: Support to Public Finance Management Reform in the area of strengthening programme-based and performance-informed budgeting capacities of key social ministries and sub-national administrations. The focus is on development and dissemination of relevant tools, such as budget formulation and execution manuals, and on quality improvement of evidence-based annual budget proposals. Specific focus is on improving budget transparency and accountability in collaboration with MEF, and improving citizens' access to line ministry and sub-national administrations' budgets. In addition, the Programme Improving Synergies between Social Protection and Public Finance Management (SP-PFM, multi-country) supports Cambodia, to build sustainable social protection financing strategies. The Programme is funded by the EU (2018 / 041-579), as part of the ILO Flagship Programme on Social Protection, and jointly implemented by the ILO, UNICEF and the Global Coalition for Social Protection Floors (GCSPF).

2.3. Additional Areas of Assessment

2.3.1. Public Policy

The **Public Finance Management Reform Programme** (PFMRP) was launched in 2005. It consists of four successive stages implemented under four sequenced platforms:

- Platform 1 (budget credibility) is about developing a credible budget and delivering predictable resources. It includes establishing the Single Treasury Account, strengthening revenue collection and developing fiscal space, improving revenue forecasting and macro-fiscal modelling to ensure fiscal sustainability, establishing cash management procedures, implementing procurement reform, and finally putting in place a debt management strategy with modern management tools.
- Platform 2 (financial accountability) aims at providing financial information in a timely manner mainly through Financial Management Information System (FMIS) implementation and improving internal control to hold managers accountable. It includes implementing a modern chart of accounts based on IPSAS standards, developing new budget classification, a transaction coding structure and accounting rules, implementing a FMIS, clarifying line of responsibilities through a clear budget entity structure linked to a responsibility/expenditure assignment, and developing a reporting structure, including financial statements that comply with international standards.
- Platform 3 (budget-policy linkage) focuses on improving linkage between economic planning and economic policy priorities as reflected in the Rectangular Strategy and National Sustainable Development Plan (NSDP) and budget planning. It includes developing a hierarchy of medium term programming tools and implementing programme budgeting with some elements of fiscal decentralisation. It also foresees integration of the recurrent and capital budgets.
- Platform 4 (performance-based management) intends to deliver broad accountability through better-designed PFM processes and performance-based management.

The specificity of the platform strategy is that it combines the logical interdependence between reforms with a clear prioritisation of tasks based on a diagnostic of the PFM system vulnerability. Platforms can run parallel to one another, but remain relatively independent, provided that basic functions are already implemented.

The PFMRP, which sets the main direction for reform, is complemented by a series of key reform strategies with detailed action plans to operationalize the reform across the different PFM areas up until 2025. Together, the PFMRP and these strategies form the public policy package for the reform of PFM in Cambodia to 2025. First of them is the overarching **Budget System Reform Strategy 2018-2025 (BSRS)**: whereas the PFMRP sets the broad targets for reforming the overall PFM system, the BSRS defines a set of realistic and achievable objectives for the development of the budget system of Cambodia and describes the overall strategy, policies and actions that will be required to achieve these goals. The BSRS takes a broader view of the meaning of the Budget System as a core PFM reform agenda centred around the long-term goal of achieving performance budgeting. The strategy provides guidance and direction to most other budget system reform strategies, which include: the Revenue Mobilization Strategy (RMS 2019-2023), Sub-National Budget System Reform Strategy (SNBRSR 2019-2025), Public Procurement System Reform Strategy (PPSRS 2019-2025), Public Investment Management Strategy (PIMS 2019-2025), Public Debt Management Strategy (PDMS 2019-2023), Strategic Capacity Development Plan (SCDP 2021-2025) and the FMIS Phase III (2021-2025) and FMIS Change Management Strategy which calls for business process streamlining in MEF and line ministries.

In order to ensure appropriate coordination, the platform approach is implemented in stages. Each stage has its own PFMRP document (currently the PFMRP Stage 3), which is accompanied by a corresponding Consolidated Action Plan (CAP) used for PFMRP implementation monitoring. CAPs effectively *consolidate* the main PFMRP indicators based on the BSRS and all other PFM areas strategies and their detailed action plans which include annual indicators and targets. CAPs are further disaggregated into annual MEF general-directorates action plans (GDAPs) and line ministries' ministerial action plans (MAPs). This establishes a direct line of accountability for the implementation of PFMRP at all levels of administration. CAPs are periodically updated to adjust to developments in implementation of the PFMRP and complementary sub-sector strategies. For instance, the CAP3 (2019-2020) was extended by another two years at the end of 2020 into the current CAP3+2 (2021-2022) mainly due to delays in finalising the new organic budget law (the *Public Finance System* Law) and to additional delays caused by the pandemic. The CAP3+2 builds on the findings of the 2020 PEFA update and comprehensive CAP3 Review conducted in 2020. The start of the PFMRP Phase 4 (and related CAP4) is expected to take place in 2023 and the current CAP 3+2 will keep being relevant until the CAP4 is adopted.

Although the pace of reforms has been slower than originally planned, the Government has achieved considerable progress in consolidating public finances, in establishing budget credibility and in mobilizing resources for strengthening the transaction platform. These tools include programme budgeting, medium term fiscal and budget frameworks (Medium Term Financial and Budget Frameworks, Budget Strategic Plans), public investment management (e.g., the requirement for environmental and social impact assessments), public procurement, comprehensive budget classification and regular spending reviews. The MEF has launched in 2021 a series of consultations and training on Gender Responsive Budgeting, which demonstrate growing interest in this new tool. Line ministries still have to further develop their programme budgets and strengthen monitoring systems to track gender disaggregated indicators and mainstream gender in planning and budgeting. The implementation of the Budget Reform Strategy 2018-2025 and adoption of Sustainable Development Goals will pave the way towards the introduction of gender based budgeting.

A complex but efficient management structure has been put in place to manage the PFMRP, consisting mainly of the PFMRP Steering Committee, chaired by the MEF Minister and gathering all Directors General and Secretaries General in charge of finance in the line ministries meeting on quarterly basis, and the PFM Technical Working Group (TWG), co-chaired by the MEF Minister and a lead donor coordinator (currently European Union and ADB). A PFMRP Steering Committee General Secretariat (GSC) serves as the secretariat for the PFM Steering Committee and supports MEF general departments and working groups for technical and administrative matters, and acts as a liaison with other line ministries and agencies and development partners. This institutional structure is complemented by PFM Reform Working Groups established in all ministries.

The PFMRP first two stages have been financed through a mix of domestic and external resources. The Government has mobilised necessary domestic resources to cover the recurrent costs of implementing the PFMRP (mainly management and training costs). Development partners have financed the investment costs, both through the PFM Modernisation Project of the PFM Multi-Donor Trust Fund (TF) managed by the World Bank, and through bilateral arrangements. The main investment items have been the FMIS Phases 1 and 2 (approximately USD 28 million) and capacity building activities (international technical advisors, training programmes and study tours) provided by the Multi-Donor Trust Fund (to which the EU is the main contributor) as well as by ADB, USAID and JICA. The PFMRP Stage 3 had originally been costed by MEF at USD 40.2 million, including USD 17.7 million for FMIS (whereas the FMIS budget soared to USD 28 million).

Ensuring environment sustainability and readiness for climate change is part of Cambodia's Rectangular Strategy-Phase 4 and of the broader National Strategic Development Plan 2019- 2023. Cambodia has committed, through the Paris Agreement and the Sustainable Development Goals (SDGs), to pursue climate targets and policies that would limit global temperature rise to well below 2 degrees Celsius, compared to pre-industrial levels. According to the Global Climate Risk Index, Cambodia was ranked as the 12th most climate risk-prone country globally, showing the high-level of vulnerability to extreme weather events. . In line with the Public Investment Management Strategy (PIMS), Cambodia must change its investment infrastructure strategy from focusing on low-cost and quantity investments aimed at equitable outcome distribution and acceleration of economic growth, to large-sized and high-value investments aimed at ensuring the quality, economic-social effectiveness, environmental sustainability, and resilient to climate changes.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.2. Macroeconomic Policy

The economy of Cambodia has started recovering in 2021, albeit relatively weakly because of Covid-19 resurgence in the second and third quarters of the year. Following a sharp contraction in 2020 (3.1%), growth reached 2.2% in 2021, underpinned by manufacturing exports (garments, footwear, bicycles) and agriculture. The other two traditional growth drivers, tourism and construction, remained sluggish. Inflation remained relatively low at 2.9% in 2020, it increased to 3.2% in 2021 due to strong growth in gasoline prices and it is expected to remain contained in the medium term (3% in 2022). The economy is expected to continue to recover amid a rollback of COVID-19-related restrictions. Real GDP growth is projected to reach between 4.5% (WB) and 5.1 % (IMF) in 2022.

The current account deficit has sharply widened in 2021 to 26.9% of GDP (from 9.9% in 2020 and 9.7% in 2019), due to the collapse of tourism revenue and remittances. It was still fully financed by FDI inflows, representing 13.7% of GDP, and other investment flows. Gross international reserves declined only marginally to USD 19.3 billion in September 2021, from 21.2 billion at the end of 2020. The current account deficit is expected to narrow gradually from 2022 as external demand recovers with improvement in tourism and benefits from the newly signed Cambodia-China Free Trade Agreement (CCFTA), Regional Comprehensive Economic Partnership (RCEP) and FTA with South Korea. A new Investment Law was introduced in October 2021 to attract more FDI with further Corporate Income Tax (CIT) exemptions, and to improve productivity with a number of incentives for staff training, R&D and innovation, machinery modernization, and others.

On the fiscal side, slower revenue collection in 2021 combined with expanded economic and social support programmes is driving the fiscal deficit up to between 5.1% (IMF projections) and 6.1% (WB projection), from 4.5% in 2020. Expenditure remained contained despite increased Covid-related fiscal interventions, with public sector wage being frozen. While total capital expenditure remained moderate, domestically financed capital spending surged by 42%, thus exceeding externally financed capital spending. Sustained implementation of the Domestic Revenue Mobilisation Strategy 2014-2018 has resulted in remarkably strong domestic revenue performance, reaching over 24.8% of GDP in 2019. However, with expenditure at 26.7% of GDP (down from 28.4% in 2020) and revenue falling to 21.5% of GDP in 2021 (from 22.5% in 2020), the authorities have drawn down on their reserves in the banking system, which declined to 17.6% of GDP in September 2021 from 23.7% at 2020 end. Public debt-to-GDP ratio rose to 36% in mid-2021 (or USD 9.1 billion) from 28% in 2019, but the risk of debt distress remains low (IMF).

Thanks to improved confidence in the banking system and continued capital inflows, broad money growth recovered in 2021 and was strong at 15.3% y/y as of September 2021. Domestic credit growth recovered thanks to improved demand, and grew at 24% y/y in September 2021 compared to 27% in December 2019. The National Bank of Cambodia's (NBC) Financial Stability Review for 2020 indicated that financial and banking sectors remained resilient due to strong capital and liquidity positions and to implementation of micro prudential regulations in the past decades coupled with the intervention measures by the NBC that have built up the resilience of the banking system.

Cambodia's economy is expected to continue recover, following a new trajectory expanding rather moderately in the short term as the economy is tourism dependent. The IMF foresees that the economy will grow gradually to pre-crisis rates of around 6.5% in the medium term. Growth forecasts for 2022 range from 4.5% (WB), to 4.8% (Government) and 5.1% (IMF). Public debt is projected to stabilize at under 40% of GDP over the medium term, which would be consistent with the authorities' own debt limit. This would also avoid monetary financing of the deficit, which should be a last resort for a highly dollarized economy with fixed exchange rate.

Macroeconomic policy: The authorities have responded to the crisis with a package of countercyclical measure, combining fiscal stimulus and accommodative monetary policy in line with global IMF recommendations. The government rapidly redirected resources to healthcare and social protection while rationalizing other current spending. It implemented a system of cash transfers to vulnerable households (as of October 2021, 678,459 households or 19% of all households received an average of 45$ per month cash transfer). Loans and guarantees, tax breaks, wage subsidies, and support for retraining were extended to affected businesses and workers whose contracts were suspended. The NBC introduced measures early in the crisis to improve liquidity in the banking system and issued guidance to banks to facilitate loan restructuring. These support programmes have been made possible by the large fiscal space available and by support provided by the EU and other development partners and the resulting boost in revenue collection and stable macroeconomic performance, which put the country in a solid position to withstand the external shock of Covid-19. Without these measures, incomes and employment would likely have fallen further. In its Article IV report of December 2021, the IMF considers government response as appropriate.

Monetary policy: The NBC issued its third round monetary easing measures in May 2021 to: (i) maintain a reserve requirement ratio at 7% for both riel and USD deposits and borrowings until further notice; and (ii) allow the banking and microfinance sectors to continue to restructure loans until the end of 2021 (by mid-2021, 11% of loans had been restructured). The NBC has taken steps to reduce risks from restructured loans. Support to banks has softened the impact of the pandemic on borrowers, but losses on restructured loans are likely to weaken capital positions and could potentially undermine the ability of the financial sector to finance the recovery. To mitigate such risks, the NBC instructed banks and financial institutions in December 2020 to suspend dividend payments in 2020 and proactively requested capital increases from those institutions for which buffers appeared to be relatively low. The NBC also required banks to conduct stress tests on the restructured portfolio in 2021. In September 2021, the NBC introduced a Marginal Lending Facility to provide short-term liquidity to the banking sector.

Fiscal policy: Fiscal expansion will continue with Budget 2022 increasing expenditures by 8.4% (reaching 27.9% of GDP against 27.7% of GDP in Budget 2021), of which current expenditure increases by 11.2% (reaching 16.7% of GDP against 16.2% of GDP in Budget 2021). Capital spending marginally increases by 4.5% in Budget 2022, at 11.1 % of GDP, down from 11.5% of GDP in Budget 2021. Thanks to improved revenue collection, the overall fiscal deficit is set at 7.1% of GDP, down from 9.1% of GDP in Budget 2021. Total public debt is expected to continue to increase slowly, from 36% in 2021 to 36.4% in 2022 (IMF).

Policy recommendations of the IMF Art. IV report of December 2021:

On the back of an uncertain outlook with main risks being the course of the pandemic, banks loan portfolios concentrated in the real estate, and climate change impact (droughts and floods), the IMF recommends policies to remain supportive in the near term, and be more finely targeted as the economy recovers, allowing more resources for measures to increase resilience and adaptability in the medium term.

- Fiscal policy should continue to prioritize healthcare and social assistance. Support to firms and workers should be costed and regularly evaluated. Revenue mobilization, broadening the tax base, and the development of a sovereign bonds are essential to increase financing flexibility.
- Macro- and micro-financial policies: Supervisory standards should be gradually normalized with a carefully calibrated sequence of steps to gradually return to standard prudential requirements. Reforms should continue to close supervisory gaps and bolster the financial safety net. Addressing deficiencies in the AML/CFT regime is an urgent challenge.
- Structural policies to improve fundamentals such as institutions, education and welfare, and technological readiness remain crucial to boost potential growth and diversity. Particular focus should be directed at tackling labour informality, addressing corruption concerns, and adapting to climate change.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3. Public Financial Management

Cambodia's PFM system is regularly the object of standard diagnostics such as PEFA assessment reports as well as Public Expenditure Reviews and Public Expenditure Tracking Surveys. The 2020 PEFA assessment report (finalised in June 2021) noted that overall, the country's PFM systems have significantly improved in the areas related to fiscal and budget management but improvements are still needed in areas related to fiscal transparency and reporting, public investment management, medium-term budgeting, expenditure arrears and payroll. Comparison with the previous 2015 PEFA exercise shows improvement in 9 indicators, and deterioration in 2 indicators. The PEFA report provides a summary of key issues for each of the main PFM objectives, i.e. aggregate fiscal discipline, allocative efficiency, operational efficiency and integrity of fiscal information:

- **Aggregate Fiscal Discipline** has improved as well as budget credibility in terms of expenditure and revenue administration management, State Owned Enterprises (SOEs) monitoring, transparency of taxpayer obligations and liabilities, with areas for possible improvements. Budget outturn is closely aligned to budgeted expenditure aggregates (PI-1, rated 'A'), but revenue forecasting is underestimated. Weaknesses have been identified in revenue arrears management. An orderly and timely budget preparation process ensures that all budget entities have ownership of their budgets and know their final budget allocations well before the start of the fiscal year but budgets are submitted without final hard budget ceilings and alignment to strategic sector plans is limited to two sectors (Education and Health). Timely budget execution reports are published monthly and are instrumental for monitoring the aggregate revenue and expenditure. Cash flow forecasts provide reliable information to line ministries and facilitate the planning of their expenditure commitments. Oversight of SOEs and local governments financial performance allows the MEF to monitor and ensure that such entities are not raising unplanned liabilities. Revenue administration systems ensure effective registration of taxpayers, and relative control over their tax liabilities even if tax arrears are not adequately managed and comprehensive reconciliation of revenue accounts takes place only annually. Debt management is adequate, given the moderate debt levels. A comprehensive assessment of fiscal risks and future liabilities from SOEs and other fiscal operations is still lacking.

- **Strategic Allocation of Resources** has improved and variance in expenditure composition has decreased. Allocative efficiency is supported by an orderly and participatory approach to the annual budget formulation, including a timely and well-organized legislative review, which prepare their own budgets independently. However, the achievement of high-level strategic policy objectives in public service delivery requires strong policy-budget links with the resource allocation, including over the medium term. The current planning and budgeting systems can be further strengthened and alignment of annual budget to BSP, as strategic sector planning remains weak, except for health and education, resulting in weak links between policy and programmatic priorities. The selection process of capital investment projects and the lack of inclusion of recurrent budget costs for investment projects remain key issues to be addressed. Also, the medium-term expenditure framework is not fully developed and integrated into the budgeting process. Furthermore, the monitoring of budget execution to support effective policy-decisions throughout the year could be strengthened if the unified chart of accounts would include a functional classification and not only by sectors, as programme budgeting and programmatic classification are in place at central level. Lack of reporting in FMIS on implementation of externally funded projects which amount to three quarters of public investments is critical. Systems to track resources received by service delivery units has improved in the education and health sectors. In-year reallocations are taking place but are transparent and limited at aggregate level. The actual allocation of resources during budget execution does not deviate from the policy intent reflected in the government's budget proposals, and the legislature has to approve only very minor amendments to the annual budget. The weakness of budget-policy linkage lets to public resource allocation not fully responsive to policy priorities, resulting in incomplete public service delivery, including also Gender Responsive Public Services (GRPS).
- **Service Delivery** has improved as there has been significant progress in the information available on resources received by schools and hospitals and public access to key fiscal information, also thanks to the support provided to the increase of social accountability by the Implementation of the Social Accountability Framework (ISAF). The predictability of funds available to line ministries and agencies during budget execution and to SNAs is a key support for efficient service delivery. Of particular concern for the efficient use of public resources is the persistent lack of performance of monitoring and transparency of the procurement systems. Combined with the apparently significant payment delays to suppliers for goods and services resulting in arrears, they can highly undermine the value-for-money of public spending. Deficiencies identified in the internal control systems for payroll and non-salary expenditures and limited effectiveness of internal audits need to be addressed as their impact on efficiency in use of public resources is critical. Improvements in the timely and orderly scrutiny by the legislature and improvement of public transparency are to be highlighted as very positive developments for public accountability and better efficiency in service delivery in the period.

Domestic revenue mobilisation has performed very strongly since the start of the PFMRP in 2004, when domestic revenue was at 8.5% of GDP. Under the Revenue Mobilization Strategy 2014-2018 (RMS), it soared to 21.9% of GDP in 2018. On the back of this remarkable success, the Government launched the new Revenue Mobilization Strategy 2019-2023 in May 2019. The RMS-II aims at further improving revenue administration and addressing weaknesses in the current system, including broadening of the revenue base through revised tax and non-tax policies. New taxes will be introduced, such as tax on capital gains, personal income tax and tax on e-commerce. Property tax is to be expanded and land property tax rate is to be increased (currently very low, at 0.5%). Tax incentives will be reviewed, the Investment Law revised, and tax expenditures quantified. Revenue administration will see the General Department of Taxation (GDT) and the General Department of Customs and Excise (GDCE) modernisation with a focus on improving taxpayer services and increasing voluntary compliance, and modernisation of non-tax revenue administration (expansion of the Non-tax Revenue *Management Information System (*NRMIS), new Law on Non-Tax Revenue, and review/revision of existing contracts). The RMS 2019-2023 (RMS-II) targets an increase in domestic revenue collection of 0.3 percentage point of GDP per year, which by comparison to previous year's performance seems very conservative, especially as revenue jumped to 24.8 % of GDP in 2019, well above the 0.3% target. This remarkable performance, however, was put to an abrupt halt in 2020 with the Covid-19 crisis, with revenue falling back to 22.5% of GDP in 2020 on the back of a contracting economy and fiscal stimulus package including tax cuts. With the crisis expanding into 2021 due to the first community outbreak of Covid-19 and the containment measures that followed, revenue to GDP fell to 21.5% in 2021. External factors such as ASEAN integration must be taken into account as they might lead to stagnation of customs revenue, which currently amounts to about half of domestic revenue.

The COVID crisis has impacted implementation of the PFMRP, mainly due to difficulties in mobilising international expertise, implementing training plans or keeping contracted IT specialists on board the FMIS project. Delays occurred in drafting the new Public Finance System law, in approving the pilot Medium Term Fiscal Framework (MTFF) and in introducing the capital gains tax (postponed 3 times, now scheduled for 2024). However, PFM reforms have overall continued with good momentum, thus reflecting very strong political commitment and ownership of the reform, and progress was generally in line with PFMRP CAP3 schedule:

- The 2020 CAP3 Review and PEFA update have served as a basis for the development of the extended CAP3+2 (2021-2022), which will precede the kicking-off of Stage 4 of the PFM reform with a CAP4 starting in 2023. The adoption in 2019 and 2020 of a package of PFM sub-strategies allows for detailed mapping and sequencing of the reform to 2025.
- The Budget System Reform Strategy (BSRS) 2018-2025 adjusted reform objectives to more realistic sequencing of the budget entity framework and programme budgeting. The ongoing piloting of MTFF and Medium Term Budget Framework (MTBF) is an important step to ensure strategic allocation of resources.
- Implementation of FMIS Phase 3 continued and the implementation of the FMIS Change Management Strategy has been key to start the much-needed streamlining of the procurement-to-payment business process in 2020.

Cambodia had a first climate public expenditure review on 2012 (Cambodia Public Expenditure Review Reports), with follow-up exercises supported by the National Council for Sustainable Development (NCSS) and by the Cambodia Climate Change Alliance (CCCA). The latest of these PERs was published in December 2020 covering the fiscal year 2019. Recent PERs concluded that climate change features more prominently in Cambodia's National Strategic Development Plan and in several sector strategies but that this progress on the policy side needs to be better translated into financing strategies, both within the domestic budget and in negotiations with external partners.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.4. Transparency and Oversight of the Budget

The entry point is met as the enacted budget is published every year before the start of the fiscal year. The Law on Budget 2021 was approved by the Parliament and published in the National Gazette in December 2020. The Budget is also published on the website of the Ministry of Economy and Finance. Cambodia has conducted a PEFA assessment update in 2020 (finalised in June 2021) and the last OBI was conducted in 2019.

Promoting budget transparency is one of the key objectives of the PFMRP CAP3+2 (Objective #44), with the following activities: improve indicators of budget transparency in PEFA report; increase comprehensiveness of budget documents and timeliness of public dissemination; organize public forum on Medium Term Fiscal Framework (MTFF) and annual budget with the aim to increase participation and access to the information by the public.

The last **Open Budget Survey** (2019) notes that the authorities make the eight key budget documents publicly available online in a timeframe consistent with international standards, including a citizen's budget. This reflects a clear improvement over the findings of the Open Budget Survey 2017.

The most recent **2020 PEFA** also shows good progress since the 2015 PEFA, with the performance indicator on comprehensiveness of budget documentation scoring B (against C in 2015), with all 4 basic elements available and 3 additional elements out of 8.

In 2020 and 2021, the authorities have prevented delays in publication of key budget documents in spite of the COVID crisis. The Budget Laws and Budget Settlement Laws were submitted and approved timely. The mid-year budget execution report 2021 was also produced timely, and so were the financial statements and audit by NAA.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The **Overall Objective** (Impact) of this action is to promote sustainable, inclusive and climate neutral economic recovery post-Covid-19 pandemic.

The **Specific Objectives** (Outcomes) of this action are:

1. Enhanced budget credibility
2. Enhanced financial accountability and transparency
3. Strengthened efficient budget-policy linkages, including on Climate Change and Gender
4. Capacity development for PFM and service delivery

The **Induced Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

IO 1.1 Increased domestic revenue mobilisation (revenue outturn)
IO 2.1 Enhanced FMIS expansion (more interfacing and increased coverage)
IO 2.2 Increased performance and information for service delivery (streamlined payment processes)
IO 2.3 Improved transparency and value for money in public procurement
IO 2.4 Improved quality financial reporting and statistics
IO 2.5 Increased availability and comprehensiveness of budget documents, including climate finance, and anti-corruption awareness
IO 3.1 Climate change sensitive public investments
IO 3.2 Support the implementation of the National Strategy for the Development of Statistics, including the improvement of socioeconomic statistics highlighting gender issues
IO 4.1 Support to the implementation of the Capacity Development Plan in the Framework of Public Financial Management Reform Program and overall strengthening of Government capacity

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The **Direct Outputs** to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are:

DO1: Additional fiscal space created by the transfer of funds and increased predictability of funds
DO2: A more aligned and coordinated policy dialogue is promoted
DO3: Improved monitoring and reporting of reforms
DO4: Strengthened capacities in the Government of Cambodia conducive to the implementation of PFM policies

3.2. Indicative Activities

The Induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives (Outcomes) are to be addressed by the variable tranche indicators to be set out in the Appendix to the Financing Agreement.

The **activities for Direct Output 1** (*Additional fiscal space created by the transfer of funds and increased predictability of funds)* are:

- Transfer of up to a maximum of EUR 20 million grant resources to the Budget of Cambodia in 2024-2026 Fiscal Years; (up to EUR 6 million in FY 2024, up to EUR 7 million in FY 2025, up to EUR 7 million in FY 2026)
- Technical assistance to the MEF General Department of Taxation in building institutional capacity to implement the Revenue Mobilisation Strategy

The **activities for Direct Output 2 (***More aligned and coordinated policy dialogue is promoted*)

- Continued political and policy dialogue with the Government to ensure the implementation of PFM reforms as set in the PFMRP CAP3+2 2021-2022 and CAP4 as of 2023
- Effective PFM Technical Working Group (TWG) and Development Partner Committee
- Support Civil Society Organisations (CSOs) engaging in good governance, anti-corruption strategies, promotion of accountability and of transparency – including climate finance transparency - and public participation in policy-making
- Provide support to improve capacity development, national statistics (minimum sex, age and disability when possible if disaggregation), financial management information systems, budget formulation and execution, internal and external audit, revenue mobilisation and public procurement

The **activities for Direct Output 3** (*Improved monitoring and reporting of reforms*) are:

- Support General Secretariat for PFMR Committee (GSC) in improving result-based monitoring and reporting of the PFMRP CAP3+2 2021-2022 implementation and CAP 4 as of 2023
- Monitoring of achievements of the reform objectives agreed with the Government through independent reviews, regular briefings and discussions
- Technical assistance to the National Institute of Statistics to improve the quality and timeliness of economic and financial statistical data including the collection and analysis with gender responsive approach

The **activities for Direct Output 4** (Strengthened capacities in the Government of Cambodia conducive to the implementation of PFM policies) are:

- Provide technical support to the General Secretariat for PFMR Committee (GSC) and Economics & Finance Institute in implementing the PFMRP Strategic Capacity Development Plan 2021-2025 in coordination with the National Public Administration Reform (NPAR) and line ministries and other training institutions such as the Royal School of Administration
- Technical assistance for addressing outstanding reforms at the central level and strengthening PFM technical capacity in the sectors and provide analytical report, think piece, and policy notes on PFM related aspect for improvement of quality of public service and fiscal transparency
- Visibility (including both awareness raising and external communication/visibility), review and evaluation activities

3.3. Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)
The Strategic Environmental Assessment (SEA) screening concluded that key environmental and climate-related aspects need be addressed during design.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)
The EIA (Environment Impact Assessment) screening classified the action as Category B (not requiring an EIA, but for which environment aspects will be addressed during design).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)
The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls
As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is an important and deliberate objective, but not the principal reason for undertaking the project/ programme. While in principle strengthening integration of gender equality objectives into budget processes and documentation is well aligned to PFMRP objectives, and there is a commitment from the Cambodian government to improve gender-responsive budgeting (GRB), GRB has not explicitly been integrated into its latest "Budget System Reform Strategy (2018-2025) yet. The CAP3 included a reference to "highlight poverty reduction and gender issues in Programme

Budgeting & Budget Strategic Plans (BSP)”. However, in the recent March 2021 update establishing (“CAP3+2”) this reference has been deleted. As part of the policy dialogue in the context of this action the EU will seek to ensure that future PFM reform strategies, and in particular the CAP4, make clear references to the importance of Gender Responsive Budgeting (GRB) and to use PFM policy and tools to ensure gender equality and the empowerment of women and girls. The EU, through this action, will continue supporting budgetary reforms that increase transparency and gradually shifting to programme budgeting (and performance accountability) by reinforcing linkages between the budget process and the policy framework, which is a prerequisite to implementing Gender Responsive Budgeting (GRB). All complementary measures of this action will mainstream gender sensitive policies in the design and implementation of activities.

Human Rights

The action applies a human rights based approach, ensuring participation, transparency, non-discrimination and accountability.

The action is particularly relevant for human rights in a number of its components, especially the focus on budget transparency, in efforts to strengthen the accountability of public funds.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the action is considered relevant for inclusion of persons with disabilities. Access to information on budget allocations, right to efficient delivery of services and transparency on how services are implemented will create a more favourable environment for persons with disabilities. In addition, increased tax revenue is a key component for the Cambodian government to increase service delivery with the purpose to alleviate poverty in its various dimensions and in improving the living conditions of all citizens, including people living in poverty, persons with disabilities and indigenous peoples. There is a National Disability Strategic Plan (2019-2021) and the Disability Action Council of Cambodia (DAC). However, availability of data on persons with disability is limited.

Democracy

It is of vital importance for the EU to maintain a strategic engagement in Cambodia to promote a sustainable and more equitable economic recovery and to use available avenues of policy dialogue with the government to promote democracy and human rights. ASEAN centrality, stability, security and prosperity are a cornerstone of the EU strategy for strengthened cooperation in the Indo-Pacific region. This action supports Cambodia’s integration into ASEAN through the narrowing of its development gap, while promoting a rules-based multilateral order, democracy and human rights, and helping the country meet the Sustainable Development Goals.

Conflict sensitivity, peace and resilience

Considerations for a conflict sensitive, do-no-harm approach to development cooperation in Cambodia are integrated in the 2021/2027 MIP.

Disaster Risk Reduction

Cambodia is exposed to nearly all types of hydro meteorological hazards from floods to droughts, heavy storms, typhoons and lightning strikes. Additionally, the Strategic National Action Plan for Disaster Risk Reduction recognizes disease outbreaks (such as cholera, malaria and dengue), climate change impacts, fires and technological hazards as potential triggers of disasters. Cambodia may face more crises during the implementation of the action including climate change, more severe and frequent nature disasters, new and emerging disease outbreaks, economic and financial shock which may happen unpredictably and more frequently. The action does not target disaster risk reduction, however, in line with the second priority of the “*Sendai Framework for Disaster Risk Reduction 2015-2030*”, reform of public finance management is functional to support the increase of domestic resources and capabilities through bilateral and multilateral channels in order to ensure adequate, sustainable, and timely means of implementation in capacity-building, financial and technical assistance and technology transfer, in accordance with international commitments on disaster risk reduction.

Other considerations if relevant

The EU is committed to promoting good governance and democracy, important focal areas within the MIP 2021-2027 and the European Joint Strategy. Supporting the PFMRP is fully coherent with this focus, as it will contribute to increased efficiency and transparency in the use of Government and external resources. Building on the previous MIP, the implementation of the Public Financial Management (PFM) Reform Program will allow to enhance fiscal

discipline, further increase domestic resource mobilisation and improve policy-based budgeting and allocation of financial resources for an improved service delivery to citizens. Also, a better linkage between economic planning and budget formulation will, in particular, help take into account the prioritisation of pro-poor spending, gender issues, natural resources management and environment preservation. As a result, improvement in governance will therefore help to foster better results in all the other priorities of the MIP.

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
1-to the external environment	**Risk 1 – Human rights related risks.** The implementation of policy priorities to be promoted through this action, including accountability and transparency of government's actions, may be challenging without a sufficient human rights based approach.	**H**	**H**	Regular dialogue with the Government on issues of human rights and democracy. Dialogue on rule of law and effective fight against corruption. Transparent review of economic land concessions. Support and engagement of active CSOs to promote accountability and transparency.
1-to the external environment	**Risk 2 – Corruption and external oversight.** Effectively tackling corruption remains a potential risk for the objectives of mobilising further domestic revenue and budget reforms. The National Audit Authority (NAA) strategic plan remains outside the PFMRP creating risk that key accountability and transparency issues are not addressed through support to the PFMRP.	**H**	**H**	Addressed through a combination of continued support for PFM, anti-corruption institutions, civil society's oversight. Policy dialogue to advocate and promote reforms with the potential of improving the anti-corruption environment, decrease impunity and promote due prosecution Promote systematic publication of audit reports.
1-to the external environment	**Risk 3 – Climate change mitigation and adaptation**. Cambodia is one of the most vulnerable countries to climate change in the world, while government capacities and resources, in particular at subnational levels, are very limited.	**M**	**M**	Addressed through the Team Europe Initiatives 1 and 2, currently in the pipeline under the MIP 2021/2027 to support climate sensitive and deforestation-free agricultural and industrial value chains.
1-to the external environment	**Risk 4 - Inclusive growth, inequality and women's economic empowerment**. In general, but also aggravated by the COVID-19 pandemic, a significant share of the Cambodian population, live in poverty. The households (about 40%) clustering just around the poverty line have become more	**M**	**L**	Engaging through policy dialogue with the Government to promote a post COVID-19 recovery strategy avoiding further widening of income gaps. Reform of public finance management systems is instrumental to increase social spending and improve service delivery.

	vulnerable to falling back into poverty/below the poverty line			
3-to people and the organisation	**Risk 5 – Capacity and Institutional** Constraints to capacity in the Line Ministries to implement reforms, as well as uneven and uncoordinated progress among the public governance reforms.	**M**	**M**	Combining technical support with capacity building and soft skills trainings; Implementation of a comprehensive Reform Capacity Development Plan;
3-to people and the organisation	**Risk 6 – Uneven support to reforms**, with FMIS implementation will absorb most of MEF and line ministries resources	**M**	**M**	Sustain the oversight committee and carefully monitor developments and results.
4-to legality and regularity aspects	**Risk 7 – Public Procurement** Weak procurement practices leading to leakages	**H**	**H**	Improvement of the public procurement legal framework and enforcement mechanisms, and transparency

Lessons Learnt:

The most important lessons based on the implementation of the previous programme is that there is very important level of political commitment to reform PFM systems. However, this has, on some occasions, led to overly ambitious plans compared to internal capacities or funding availability.

The previous Sector Reform Contract to support PFM reform in Cambodia (ACA/2015/037-958; ACA/2018/ 040-874) showed a very good level of success, with EUR 12.5 million been disbursed in two tranches in 2020 and 2021. While in 2020 the disbursement of 100% was linked to the support provided in the context of the COVID-19 crisis, the success in the disbursement of 2021 showed that 5.66 out of the 8 target indicators were assessed as met and gave rise to the corresponding payment.

Useful lessons have been learnt from the previous PFM programmes implemented between 2016 and 2021 (ACA/2015/037-958; ACA/2018/ 040-874), from various external assessments including the PEFA finalized in June 2021, and regular IMF Technical missions. The Ministry of Finance is flexible in the way it implement its PFM reform. It takes into account recommendations and does not hesitate to seek for internal or external assistance to confront them.

In particular, the Budget System Reform Strategy endorses a shift from the originally planned "*performance-based budgeting"* to the more realistic "*performance-informed budgeting"*[12]. The new budget system aims to move from an input-based system towards a result-based system. In this regard, EU has provided technical assistance (TA) to MEF to develop a procurement reform strategy to run in parallel to the BSRS.

Year after year the quality of reporting and reporting mechanism is improving. However, there remains a need for better availability of budgetary and expenditure analysis, for an improved timely decision making process. Development Partners have therefore agreed to provide further support with a trust fund providing specific advisory services, analytical report (Tax system reform, update of the PFM strategic framework (CAP4), strengthening of Public Investment Management reforms, change management, Public Expenditure Review, Business continuity planning as well as capacity building and innovation).

The implementation of previous programme, in particular with respect to the monitoring of reforms has provided valuable lessons in particular:

1) Technical and strategic policy dialogue based on a regular monitoring of the on-going reforms is a real added value of the budget support modality;

2) Reporting periods and disbursements need to be aligned with the PFM cycle reporting year;

3) Technical assistance to support the achievement of jointly-agreed reform objectives should be provided throughout the implementation period;

[12] With performance-informed budgeting, resources are not directly related to performance, as was envisaged in the previous budget reform strategy, but performance information is used in the budget allocation process.

4) The share of the variable tranche should increase to maximise ability to drive policy reforms;

5) All budget support operations implemented by the EU in Cambodia should be closely coordinated;

6) Cambodian Civil Society should be involved especially on budget reform and oversight;

7) Despite an improvement of statistics availability and methods, the availability and coverage of data should be further improved, including on sex, age and disability disaggregated data.

3.5. The Intervention Logic

The underlying intervention logic for this action is that of enhancing the effective use of resources and alignment of expenditure with national priorities to improve Government's service delivery and spur inclusive economic growth. The overall objective of the intervention is to promote sustainable, inclusive and climate neutral economic recovery post-Covid-19.

Our partnership with MEF on the PFM reforms (SDGs 16 and 17), have also contributed to significant improvements in domestic revenue mobilisation, better alignment of expenditure with national policy priorities, availability of financial information for timely decisions and increasing accountability and transparency, as noted by the Open Budget Index assessment published in 2020. The proposed Action intends to nurture the strong partnership built with the Ministry of Economy and Finance (MEF). MEF remains central to Government reforms and has a strong influence also on line ministries.

The Action will apply a human rights based approach, ensuring participation, transparency, non-discrimination and accountability. The Action will contribute to the transition from the PFMRP 3rd stage focused on budget-policy linkages to the 4th stage focused on performance accountability. The proposed Action will: (i) enhance budget credibility; (ii) enhance financial accountability and transparency; (iii) strengthen efficient budget-policy linkages, including on Climate Change and Gender; (iv) develop capacity for PFM and service delivery. To achieve these objectives the Action will support domestic revenue mobilisation efforts in the context of the post pandemic recovery and will support digitalisation efforts by expanding the coverage and functionality of the Financial Management Information System (FMIS), including on its performance to support improved service delivery. The Action will support increased quality and availability of budget documents, including financial reporting and statistics, and increased transparency and value for money in public procurement, thus supporting stronger accountability and oversight to the citizens. The Action will equally support climate change sensitive public investments and the implementation of the National Strategy for the Development of Statistics, including the improvement of socioeconomic statistics (including sex disaggregated).The Action will equally focus, through its different components including in particular the complementary measures, to increasing budget transparency, including on climate finance tracking and gender responsive budgeting GRB).

These objectives should contribute to improved confidence of the population in the performance of the Government, particularly as regards the budget process.

Considering the high level of Government ownership over the PFMRP, the action will support core PFM reforms through budget support and the PFM reforms enabling environment and by supporting civil society organisations (including women's organisations) through complementary support. The Budget Support modality is proposed, strongly performance-based and built on a clear joint vision for the sector, backed up by a close and regular policy dialogue, including on human rights issues. The budget support will further strengthen Government ownership of the reform and maintain the momentum for reforms by empowering the General Secretariat for PFMR Committee (GSC) to lead the policy dialogue with national authorities, development partners and civil society. The transfer of funds to the national Treasury will allow the authorities to ensure part of the funding of key investment for PFMRP implementation, not least the considerable capacity building activities needed in the CAP3+2 and CAP4 period and the procurement of FMIS further developments.

The complementary support will provide support to the MEF, NIS, and CSOs with a view to bolster capacity development and strengthen the PFMRP enabling environment as well as provide further technical expertise and analytical studies to monitor the impact of PFM reforms in service delivery. For the first time, the technical cooperation with MEF and NIS will be supported by twinning projects/programmes..

3.6. Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
Indicative Impact of the policy	To promote sustainable, inclusive and climate neutral economic recovery post-Covid-19.	National Strategic Development Plan, 2019-2023	2014	Proportion of population living below the national poverty line (consumption based) (Target n 8 of core indicators of NSDP 2019 – 2023) Value: 5.5	NSDP monitoring reports
Expected Outcomes of the policy	Expected outcome 1. Enhanced budget credibility	EO1.1: ratio of current revenue to GDP;	1.1 2020	1.1 Targets 2022 (of CAP3+2); Annual targets under the future CAP4	1.1 PFMRP Annual Monitoring Report
		EO1.2: percentage budget execution, disaggregated by type (revenue and expenditure)	1.2 idem	1.2 idem	1.2 idem
	Expected outcome 2. Enhanced financial accountability and transparency	EO2.1: Number of modules operational;	2.1 idem	2.1 idem	2.1 idem
		EO2.2: Number of types of budget entities connected;	2.2 idem	2.2 idem	2.2 idem
		EO2.3: Number of types of non-salary transactions processed	2.3 idem	2.3 idem	2.3 idem
	Expected outcome 3. Strengthened efficient budget-policy linkages, including on Climate Change and Gender	EO3.1: Status of MTFF and MTBF ceilings are aligned with Rectangular Strategy IV and NSDP priorities	3.1: MTFF and MTBF are not aligned with Rectangular Strategy IV and NSDP priorities	3.1: MTFF and MTBF are aligned with Rectangular Strategy IV and NSDP priorities	Idem
	Expected outcome 4. Capacity development for PFM and service delivery	EO 4.1: Status of implementation of the strategic Capacity Development Plan in the Framework of Public Financial Management Reform Program	2021	The Capacity Development Plan in the Framework of Public Financial Management Reform Program is implemented	PFMRP Annual Monitoring Report

Induced Outputs	IO 1.1 Increased domestic revenue mobilisation (revenue outturn)	IO1.1.1: Tax revenue percentage contribution to increased domestic revenue collection (Domestic revenues as a percentage point of GDP)	nil	To be defined	RMS progress reports, GFS budget execution report (TOFE)
	IO 2.1 Enhanced FMIS expansion (more interfacing and increased coverage)	IO2.1.1: Percentage of budget transactions processed in FMIS	To be identified	To be defined	FMIS reports
	IO 2.2 Increased performance and information for service delivery (streamlined payment processes)	IO2.2.1: Median time from recording of invoices to payment (for low and medium risk transactions)	To be identified	25 days	FMIS M&E dashboard reports
	IO 2.3 Improved transparency and value for money in public procurement	IO2.3.1: Percentage value of contracts awarded via open competitive procurement methods	44.8% (2019)	Increase by 20%	FMIS reports; PEFA PI-24-2
	IO 2.4 Improved quality financial reporting and statistics	IO2.4.1: Score for the timely submission of annual financial statements to the National Audit Authority	PEFA 2020 PI-29.2 score; D	PEFA PI-29.2 improved	Letter from MEF to NAA
	IO 2.5 Increased availability and comprehensiveness of budget documents, including climate finance, and anti-corruption awareness	IO2.5.1: Score of publication of executive budget proposal with expanded budget documentation	PEFA 2020 PI-5 score: B	PEFA PI-5 score improved	MEF website; PEFA update; OBI reports
	IO 3.1 Climate change sensitive public investments	IO3.1.1: Amounts of public investment sensitive to climate change (% of total investments)	Not measured	Measured	Annual PIM progress report (MEF)
	IO 3.2 Support the implementation of the National Strategy for the Development of Statistics, including the improvement of socioeconomic statistics highlighting gender issues	IO3.2.1: Status of publication with statistics highlighting gender issues	To be identified	To be defined	Cambodia Socio-Economic Surveys; Women and Men in Cambodia report

	IO 4.1 Support to the implementation of the Capacity Development Plan in the Framework of Public Financial Management Reform Program and overall strengthening of Government capacity	IO4.1.1: Status of implementation of the Capacity Development Plan in the Framework of Public Financial Management Reform Program	2021	To be defined	PFMRP Annual Monitoring Report
Direct Outputs	Direct Output 1 - Additional fiscal space created by the transfer of funds and increased predictability of funds	DO1.1: Percentage budget execution within +/- 5% of target, disaggregated by type (revenue and expenditure)	2020: -10.8% (revenue); -8.2% (expenditure)	+/- 5%	Budget Settlement Law
	Direct Output 2 - A more aligned and coordinated policy dialogue is promoted	DO2.1: Status of finalisation of CAP4 in agreement with DPs	CAP4 is not approved (year X)	CAP4 approved (2022)	CAP4
	Direct Output 3 - Improved monitoring and reporting of reforms	DO3.1: Status of quality of performance indicators in CAP4 and PFMRP Annual Monitoring Reports	CAP3+2 performance indicators	CAP4 performance indicators	CAP4
	Direct Output 4 - Strengthened capacities in the Government of Cambodia conducive to the implementation of PFM policies	DO4.1: Status of implementation of the PFMRP Sustainable Capacity Development Plan for 2019-2025	nil	SCDP indicators	PFMRP annual monitoring report

4. IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support component is EUR 20 million, and the amount for complementary support is EUR 11 million. This amount is based on MEF's vision on budgetary support providing additional fiscal space to leverage budget funds for PFMRP investment activities necessary to implement CAP3+2 and CAP4 as soon as launched, mainly FMIS roll out to Line Ministries, as well as an additional incentive to proceed timely with CAP3+2 and CAP4 finalisation and implementation.

The CAP3 2016-2020 costed USD 40.2 million. Its FMIS component was estimated at USD 18 million. CAP 3 is mostly financed by the EU budget support programme and government contributions. The extension of the implementation period of the Consolidated Action Plan to 2021 and 2022 has been approved in March 2021. The FMIS component will remain the main cost of the implementation of the PFM reform.

The Government is implementing the Revenue Mobilisation Strategy (RMS 2019-2023). Thanks to the implementation of the previous Strategy, domestic revenue collection jumped from 20.8% in 2016 to 24.8 % of GDP in 2019, well above the 0.3% target. This remarkable performance however was put to an abrupt end in 2020 with the COVID-19 crisis, with revenue falling back (see above section 2.3.3).

Budget support puts the EU in a unique position with the Royal Government of Cambodia in continuation with previous PFM programmes implemented since 2016. The implementation of the Budget Support programme in Public Finance Management has led to a strengthening of the policy dialogue and partnership between the European Union and the Ministry of Economy and Finance. The quality of the dialogue between MEF and DPs has been very satisfactory. Technical meetings have taken place more regularly with the GSC and DPs participating actively in the formulation and implementation of the Reform Strategy. Coordination mechanisms have been reviewed as necessary and there are very strong monitoring systems in place. The Delegation regularly meet with the Ministry of Economy and Finance at both technical and political level to discuss the implementation of the PFM reform and provide recommendations.

The budgetary support will be disbursed in three annual tranches, following the indicative disbursement calendar and profile breakdown below, and indicatively in Q1 of the year. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

	Total	**2024**	**2025**	**2026**
Fixed tranche	5	3	1	1
Variable tranche	15	3	6	6
Total (EUR million)	20	6	7	7

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the PFMRP and continued credibility and relevance thereof or of the subsequent policy and of the related Consolidated Action Plans.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- Strengthened mobilisation of domestic revenue;
- Improved financial management information systems;
- Enhancement of budget transparency;
- Improve public investment management;
- Increased transparency of public procurement;
- Increase of financial accountability.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3 Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into riels will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4 Implementation Modalities for complementary support to a Budget Support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[13].

4.4.1 Direct Management (Grant)

Twinning Grant(s): (direct management)

(a) Purpose of the grant(s)
The purpose of the grant is to improve monitoring and reporting of reforms as well as to develop capacity in public finance management, in line with the objectives set in section 3.1 and in particular with objective 3 strengthened efficient budget-policy linkages, including on Climate Change and Gender.

(b) Type of applicants targeted

The targeted applicants are EU Member State administrations or their mandated bodies.

4.4.2 Direct Management (Grant)

Twinning Grant(s): (direct management)

(a) Purpose of the grant(s)

The purpose of the grant is to improve monitoring and reporting of reforms as well as to develop capacity in public finance management, in line with the objectives set at section 3.1 and in particular with objective 1 Enhanced budget credibility.

(b) Type of applicants targeted

The targeted applicants are EU Member State administrations or their mandated bodies.

4.4.3 Direct Management (Procurement)

This component will support government and delegation capacities to formulate, plan and implement the reform activities and will contribute to the achievement of all specific objectives indicated in section 3.1: enhanced budget credibility; enhanced financial accountability and transparency; strengthened efficient budget-policy linkages, including on Climate Change and Gender and capacity development for PFM and service delivery.

4.4.4 Indirect Management with a pillar assessed entity

A part of this action may be implemented in indirect management with the Swedish International Development Cooperation Agency (Sida). This implementation entails: capacity development support to civil society organisations involved in promoting transparency, accountability and oversight; promotion of transparency and accountability systems as well as mechanisms for oversight of both public and private sector; enhancing the role of civil society organisations in policy dialogue, policy implementation, advocacy, research as well as monitoring of policies and programmes in these areas. This modality will contribute, amongst others, to the achievement of the specific objective 2 (Enhanced financial accountability and transparency) and 4 (Capacity development for PFM and service delivery) as indicated in section 3.1.

The envisaged entity has been selected using the following criteria:

a) Proved ability to support Civil Society Organisations (CSOs) engaging in good governance, anti-corruption

[13] www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

strategies, promotion of transparency and public participation in policy-making;

b) Demonstrated capacity to manage a large development cooperation agreement effectively ;

c) Specific mandate to focus its support on human rights, rule of law and democracy and to work through Civil Society Organisations (CSOs);

d) Strategic relevance for EU multilateral engagement.

Sida fulfils the selection criteria for the following reasons:

a) Sida has proved ability to support Civil Society Organisations (CSOs) engaging in good governance, anti-corruption strategies, promotion of transparency and public participation in policy-making. Such ability has been proven by the successive implementations of two related programmes (Partnership for Accountability and Transparency – Phase I & II (ACA 2016/376-318 and ACA 2019/411-356);

b) Sida demonstrated capacity to implement a large development cooperation agreement effectively through 2 consecutive delegated cooperation agreements managed by the EU: Partnership for Accountability and Transparency, phase I and II (ACA/2015/037-958; ACA/2018/040-874);

c) Sida has a specific mandate, as of 2022, to focus its support on human rights, rule of law and democracy and to work through Civil Society Organisations (CSOs);

d) Working with Sida has a Strategic relevance for EU multilateral engagement as it allows the continuation of a partnership on building accountability and transparency systems in Cambodia effectively in place since 2016. Sweden will be a partner of the Team Europe Initiative (TEI-2) "*Build back better – green energy and industrial value chains*", which this action will also support.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, this part of the action may be implemented in direct management in accordance with the implementation modalities identified in section 4.4.6.

4.4.5 Indirect Management with an international organisation

A part of this action may be implemented in indirect management with the World Bank. This implementation entails capacity development for Public Financial Management and Service Delivery to: inform the government's PFM/public sector reform approach/strategy related to selected PFM functions and to support capacity building instrumental to achieve all four objectives listed in section 3.1.

The envisaged entity has been selected using the following criteria:

a) Experience on the field of PFM and service delivery;
b) Operational capacity on the ground (in Cambodia) and expertise available in PFM and in reform areas related to PFM like Public Administration Reform (PAR);
c) Ability to support partnership for reforms through a multilateral engagement;
d) Visibility of reforms and of EU involvement in their promotion.

The WB fulfils the selection criteria as follows:

a) The WB has long experience in supporting the PFMRP in Cambodia through a Multi Donor Trust Fund. The World Bank and co-financing Development Partners (DFAT, Sida) have successful experience with the first two Multi-Donor Trust Funds (MDTF) on PFM, which contributed to substantial improvement of national systems, and led donors to provide direct budget support to the government;
b) The World Bank also has a unique capacity of supporting an integrated approach to reforms, supporting the linkages between public finance management reform, public administration reform and related reforms in the broader area of service delivery. This capacity has been proved by a successful implementation of a Multi Donor Trust Fund which has applied an holistic approach to the reforms conducive of an improved PFM and Service Delivery and has systematically connected PFM with other relevant reform processes in Cambodia (ACA/2019/407-648);
c) The World Bank is an important policy and strategic interlocutor for the implementation of PFM reforms with the Government in Cambodia and a strategic partner for the EU. The WB has the ability to manage

effectively Multi-Donor Trust Funds involving other donors. DFAT is committed to contribute further to the MDTF;

d) The World Bank has an excellent track record of promoting EU visibility when working with the EU under the current Trust Fund on PFM and Service Delivery. Under the Multi-Donor Trust Fund on PFM and Service Delivery (ACA/2019/407-648) the WB regularly organises conferences, launch-events and workshops to ensure the visibility of trust fund activities. In all of them the EU support is promoted and given adequate space in terms of visibility of EU logo and EU representation.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

4.4.6 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option) (Alternative to 4.4.4)

Grant(s): (direct management)

(a) Purpose of the grant(s)

The purpose of this grant is to support capacity development and in particular to support civil society organisations involved in transparency, accountability, and oversight, in line with specific objective 2 (Enhanced financial accountability and transparency) and 4 (Capacity development for PFM and service delivery) as indicated in section 3.1.

(b) Type of applicants targeted

Non-governmental Organizations (NGOs). The lead applicant must be a legal, non-profit making entity.

4.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Budget support – Sector Reform Performance Contract – cf. section 4.3	**20 000 000**	N.A.
Complementary support, composed of	**10 900 000**	
Grants (direct management) – *Twinning Project with the National Institute of Statistics as a beneficiary* – cf. section 4.4.1	2 000 000	
Grants (direct management) – *Twinning Project with the Ministry of Economy and Finance as a beneficiary* – cf. section 4.4.2	2 000 000	
Procurement (direct management): *Technical Assistance to MEF/GSC and other relevant RGC partners* – cf. section 4.4.3	2 400 000	

Indirect management with Sida (Contribution Agreement) – cf. section 4.4.4	3 500 000	EUR 3 000 000
Indirect management with World Bank (Administration Agreement) - cf. section 4.4.5	1 000 000	N.A. [14]
Evaluation – cf. section 5.2 **Audit and Verifications**– cf. section 5.3	**100 000**	N.A.
Totals	31 000 000	3 000 000

4.7 Organisational Set-up and Responsibilities

Review and monitoring of progress in the implementation of the SRPC will be entrusted to the PFMRP–GSC. The GSC will liaise as necessary with all stakeholders, including the National Program for Public Administrative Reform (NPAR) reform committee, line ministries, Parliament, NAA, and the civil society to ensure comprehensive and effective monitoring.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

Regular meetings will be organised and co-chaired by the GSC and the EU Delegation to monitor progress in overall programme implementation and identify and address bottlenecks. A “high level steering committee” meeting will be organised once per year and a “technical level steering committee” meeting twice per year.

The EU will also organise “PFM partners’ steering committee” meetings. These meetings will be convened by either the GSC or the EU Delegation and will be organised at least once per year. Meetings will involve all implementing partners of this action, including those engaged through complementary support to ensure complementarity of approach, exchange experiences and steering a coordinated implementation.

5. PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner’s strategy, policy or reform action plan list (for budget support). Indicators shall be disaggregated at least by sex. All monitoring and reporting shall assess how the action is taking into account the human rights based approach and gender equality.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

For the budget support component, the MEF will report on macroeconomic performance, improvements in public financial management and budget transparency. Review and monitoring of progress in the implementation of the matrix (performance assessment framework) will be conducted annually by the Commission.

[14] DFAT plans to contribute to the WB TF on PFM and service delivery with indicatively additionally AUD 950 000 in 2022-2025. Contributions after this period are not yet known.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action taking into account the following elements:

- The World Bank data assessment of statistical capacity (scale 0 - 100) in Cambodia was reported at 60/100 overall in 2020.
- The latest IMF Art IV Report (Published in December 2021), noted that the public dissemination of economic statistics is gaining momentum, including under the Enhanced General Data Dissemination System (e-GDDS) initiative, and data quality improvements are advancing in several areas, supported by IMF TA.
- The Joint Implementation partnership co-financed by the Commission of the European Union (EU) and Sweden, through the Swedish International Development Cooperation Agency (Sida), was implemented between 2016 and 2022. It provided support in the following four areas: 1) National Accounts (including SDGs and consolidation of CSES and other surveys), 2) Statistical Methods, 3) Communication and ICT and 4) Management and Organizational Structure.
- The PEFA 2020 report (June 2021) noted that the Chart of Accounts (CoA) has been updated and revised annually since 2007 in accordance with the international standards. It can produce statistics largely consistent with Government Finance Statistics (GFS) 2001. Government Finance Statistics implementation in Cambodia has been improving since last 2015 PEFA.

5.2 Evaluation

Having regard to the nature of the action, an ex-post evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that many key PFMRP CAP3+2 activities such as expansion of programme budgeting, budget entity framework, MTEF, new modules of the FMIS, decentralisation of functions are of a pilot nature and will need to be sustained by a progressive roll-out over the years of implementation of the action and beyond and confirmed by legislation during Stage 4 of the reform (CAP 4) as of 2023. The Commission intends to support PFM reforms with continued assistance, using evaluations to learn and shape accordingly future interventions.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination[15]. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as

[15] See best practice of evaluation dissemination

appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.