

Project Administration Manual

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Loan and/or Grant Number(s): {LXXXX; GXXXX; TXXXX}

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Royal Government of Cambodia: Decentralized
Public Service and Financial Management Sector
Development Project, Subprogram 2

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- A. Procurement Assessment Report
- B. Draft SNIF Secretariat Operational Manual – selected chapters
- C. Draft District Operational Manual – selected chapters

Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Sub-National Investment Fund (SNIF) Board will be the Executing Agency (EA) while the SNIF Secretariat will be wholly responsible for the implementation of ADB financed project, as agreed jointly between the borrower and ADB, and in accordance with Government of Cambodia and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by the SNIF of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan Agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

Abbreviations

ADB	=	Asian Development Bank
ADF	=	Asian Development Fund
AFS	=	audited financial statements
CCDP	=	Commune Council Development Project
CQS	=	consultant qualification selection
D&D	=	decentralization and de-concentration
DIC	=	Department for Investment and Cooperation
DMF	=	design and monitoring framework
DPSFM	=	Decentralized Public Service and Financial Management Program
EA	=	executing agency
EARF	=	environmental assessment and review framework
EIA	=	environmental impact assessment
EMP	=	environmental management plan
ESMS	=	environmental and social management system
FBS	=	fixed budget selection
FMIS	=	financial management information system
GACAP	=	governance and anticorruption action plan
GDoLA	=	General Department of Local Administration
GDP	=	gross domestic product
IA	=	implementing agency
ICB	=	international competitive bidding
IEE	=	initial environmental examination
IPP	=	indigenous people plan
IPPF	=	indigenous people planning framework
IP3	=	Implementation Plan for Three-Years
LAR	=	land acquisition and resettlement
LFD	=	Local Finance Department
LIBOR	=	London interbank offered rate
MEF	=	Ministry of Economy and Finance
MOI	=	Ministry of Interior
NCDD-S	=	National Committee for Sub-National Democratic Development-Secretariat
NP-SNDD	=	National Program for Sub-National Democratic Development
NCB	=	national competitive bidding
NGOs	=	nongovernment organizations
PAI	=	project administration instructions
PAM	=	project administration manual
PIU	=	project implementation unit
PEFA	=	public expenditure financial accountability framework
PFM	=	public finance management
PFMRP	=	public financial management reform program
PFMRDP	=	public financial management for rural development program
PSC	=	project steering committee
PTC	=	project technical cell
QBS	=	quality based selection
QCBS	=	quality- and cost based selection
RFP	=	request for proposals
RRP	=	report and recommendation of the President to the Board
SBD	=	standard bidding documents

SGIA	=	second generation imprest accounts
SNA	=	subnational administrations
SOE	=	statement of expenditure
SNIF	=	Sub-national Investment Fund
SPS	=	Safeguard Policy Statement
SPRSS	=	summary poverty reduction and social strategy
TOR	=	terms of reference

I. PROJECT DESCRIPTION

A. Summarize the project's rationale, location and beneficiaries

1. **Rationale:** Large regional disparities in poverty incidence and access to services. Despite displaying an impressive record of economic growth, local development in Cambodia continues to be uneven, and regional inequalities are large. Assisted by an average gross domestic product growth rate of over 6% between 2007 and 2015, the poverty rate fell sharply from 47.8% in 2007 to 22.9% in 2009, and to 18.9% in 2012,¹ a striking accomplishment. National poverty averages however mask large regional differences. About 91% of the poor live in rural areas, an increasing proportion. The poverty rate was six times lower in Phnom Penh (4.3%) than in rural areas (27.5%) in 2009–2010,² and the poorest seven provinces in the country report average poverty rates well over 30%. Non-income indicators show similar patterns. The multi-dimensional poverty index,³ measuring education, health and standard of living, is five times greater in rural than in urban areas. Only 37% of the rural population has access to improved sanitation and 44% has access to clean water sources, in contrast to over 70% in urban areas. National gains in access to health also conceal broad provincial disparities, with a number of provinces unable to reach the Millennium Development Goals targets in infant and maternal mortality rates. Aware of these large regional inequalities, the government has stated the need to fundamentally change its approach in delivering local development and public services, specifically by involving citizens in local development and improving the management and delivery of quality public services to meet locally-established priority needs and to ultimately reduce poverty. The government looks at subnational councils and administrations to deliver on these goals.

2. Inefficient service delivery systems across levels of administration. Decentralization of service delivery responsibilities poses important challenges for subnational administrations (SNAs), which operate under fledgling local governance systems and under weak resource endowments. Total spending by SNAs in Cambodia represented 7% of total government spending in 2014, with districts, municipalities and communes (the focus of decentralization efforts), accounting for 32% of the total. However, the current three tiers of SNAs in Cambodia incorporate a mixture of de-concentration and decentralization, confusing the lines of responsibility which potentially can lead to significant inefficiencies in the functioning of the public sector. In order to achieve reform objectives, clear assignments of meaningful functional expenditure responsibilities at the district and municipality level are needed, where the administrative capacity to deliver basic services and the ability to realize economies of scale do really exist. Recent reform progress under the Decentralized Public Service and Financial Management Sector Development Program (DPSFM) presents however an opportunity, as an additional 2% of the national budget will be transferred over the next two years, with the decentralization of rural water supply, health and solid waste collection functions to SNAs. The decentralization of functional assignments should however be accompanied by the assignment of the financial and human resources necessary for the minimum uniform provision of the decentralized services throughout the national territory.

3. Weak local revenue bases and financial management systems. Underdeveloped local revenue bases limit the capacity of SNAs to delivery services efficiently. Reform in this policy area needs to include a combination of transfers, tax and non-tax revenue assignments to

¹ Ministry of Planning. 2014. Poverty Estimate in 2012 in Cambodia. General Directorate of Planning.

² World Bank. 2013. Where Have All the Poor Gone? Cambodia Poverty Assessment 2013. Washington, DC.

³ Oxford Poverty and Human Development Initiative (OPHI). 2013. Country Briefing: Cambodia. Multidimensional Poverty Index Data Bank. University of Oxford: OPHI.

SNAs. Currently, only 3.6% of total national revenues are distributed to districts, municipalities and communes as transfers. The government implemented the District and Municipal Fund (D/M Fund) under subprogram 1 of the DPSFM, but there continues to be a lack of available funds for local investment projects, and financing tools that reward good SNA performance. Similarly, lack of tax and non-tax revenue assignments reduces the accountability of SNAs to their constituents and their discretionary authority over their financial resources. The government is committed to tackling this major reform challenges in a sequential manner, and in alignment with the country's overall revenue strategy. Moreover, as it is the case in countries that initiate the decentralization of the state, special emphasis is needed in ensuring adequate monitoring capacity of the government over SNA finances. Under the DPSFM, decentralized financial management systems are currently being developed, in coordination with the national public financial management reforms.

4. Fledging local governance systems and social accountability mechanisms. Successful decentralization reforms require fluid and rich interaction between local councils, their executives, and constituents through social accountability mechanisms. This will require: (i) citizen's access to information and budgets, (ii) systems for citizen monitoring of SNAs, (iii) facilitation and capacity building of SNAs and constituents, and (iv) learning and monitoring systems. In addition, clear statutes for SNAs are needed to clarify the rules and procedures of local councils and their executive, and thus facilitate the monitoring role of the constituents. The government has initiated implementation of these reforms, under the conviction that, in the absence of transparency and social accountability systems, SNAs would not be able to match service delivery to local preferences and priorities, the essential goal of decentralized systems.

5. Support to national sector priorities. The government's framework for decentralization and de-concentration reforms is contained in the National Program for Sub-National Democratic Development (2010–2019), which is implemented through 3-year implementation plans (IP3). Key legal pillars of the reform include the 2008 Organic Law on Capital, Provinces, Municipalities, Districts and Khans, and the 2011 Sub-national Finance Law. The first IP3 2011–2014 already identified the establishment of the Sub-national Investment Fund (SNIF) as a key reform priority and element of the financing system of SNAs in Cambodia. Under the DPSFM, subprogram 1, ADB supported the full technical design of the SNIF. The proposed subprogram one aims to assist the SNIF's full establishment and operations between 2016 and 2019.

Addressing regional disparities in investment for basic service delivery

6. The Sub-National Investment Fund (SNIF) is a financing instrument, separate but complementary to regular grants for SNAs that aims to achieve two policy objectives: (i) to promote socio-economic development at the subnational level by financing high quality and strategic public investments by subnational administrations; and (ii) to provide subnational administrations (SNAs) with incentives to improve their overall performance and public investment management. To that extent, the SNIF aims to absorb larger, bulkier investment expenditures from SNAs, and thus release the use of regular grants for recurrent expenditure commitments.

1. The SNIF will be governed by a Board chaired by the Ministry of Economy and Finance. Day to day activities will be led by the SNIF Secretariat, located at the MEF. Through an annual performance assessment, the SNIF will select, among the country's 159 districts, those eligible for funding in a given year. In addition to the target districts, some municipalities may be included on pilot basis at later stage of the Project, which will be fully funded by the government.

Selection will be based on the annual performance assessments (APA) of districts to identify eligible SNAs under the SNIF and so project areas may therefore vary from year to year. The ultimate beneficiaries of the projects funded under the SNIF will be the households and individuals in the selected districts.

B. Impact and Outcome

8. The DPSFM impact will be improved access to and coverage of basic services across the country. The outcome will be an efficient system of inter-governmental fiscal relations that assists service delivery by SNAs.

C. Outputs

9. The proposed DPSFM, subprogram 2 includes a policy-based loan and a project loan. The policy-based loan includes 39 reform actions (17 triggers and 22 milestones) that the government completed during 2012 and 2015. The project loan amounting \$20 million will provide assistance to the establishment and operations of the SNIF. This PAM will focus only on the project loan with the following two components:

- (i) **SNIF Investment Fund.** The project will finance local investment projects through SNIF at approximately \$17.2 million (from 2017 to 2021) as grants for eligible SNAs for local investment projects, including civil works and, possibly, investment goods upon evaluation of the first years of implementation.
- (ii) **SNIF Secretariat Support.** The project will allocate approximately \$1.4 million contribution for consultancy services, equipment and vehicle for the first three years (between 2017 and 2019). Consultancy services will include: a) training of SNIF Secretariat and SNAs; b) annual performance assessments to identify eligible SNAs under the SNIF; c) an annual evaluation and audit of investments; d) external audits of SNIF finances; and e) technical backstopping support required by the SNIF Secretariat. The SNIF contribution to eligible districts on the basis of a positive list of sectors for investment is decided by the SNIF Board. Profile and other detailed information on the SNIF are in Annex 1.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

10. Table 1 presents the completion of the Project readiness activities:

Table 1: Completion of Project Readiness Activities

Indicative Activities	2016								Who is Responsible
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Establish project implementation arrangements (SNIF Board & SNIF Secretariat)	X	X	X						MEF/SNIF Board
ADB Board approval					X				SEPF
Loan signing						X			SEPF /OGC/MEF
Government legal opinion provided							X		MEF/MOJ
Government budget inclusion							X		MEF/SNIFS
Loan effectiveness								X	SEPF/OGC

MEF = Ministry of Economy and Finance, OGC = Office of the General Counsel (ADB), SNIFS = Sub-National Investment Fund Secretariat; SEPF = Southeast Asia Department, Public Finance and Trade Division (ADB).

Source: ADB Staff estimates.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations – Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
Executing Agency (EA)	<p>The SNIF Board will serve as the EA for the DPSFM Project. As EA, the SNIF Board will be responsible for the following:</p> <ul style="list-style-type: none"> ➤ Establish the SNIF Secretariat under the direction of the Board; ➤ Endorse budget prepared and liquidated by SNIF Secretariat and approved by SNIF Board; ➤ Liaise with development partners and SNIF Board for the identification and establishment of non-core financing windows into the SNIF.
Project Steering Committee	<ul style="list-style-type: none"> ➤ The Project Steering Committee (PSC) will be the SNIF Board. It will be chaired by the Minister of MEF, the Secretary of State of MEF as Deputy Chairperson and a representative from MOI as co-Deputy Chairperson. Representatives from various ministries and SNA associations will serve as members of the Board. ➤ The Board roles and responsibilities include the following: <ul style="list-style-type: none"> ✓ Develop the broad policy framework and strategy for public investment project implemented by subnational administrations, in line with the Royal Government's over-arching policy on subnational democratic development; ✓ Approve the draft of establishment and functioning of SNIF Secretariat; ✓ Define the Eligible Criteria for subnational administrations; ✓ Define the Criteria for evaluating the investment proposals; ✓ Monitor and evaluate the consistency and comprehensiveness as well as the effectiveness of the use of subnational investment fund are consistent with Royal Government's policies; ✓ Provide the Royal Government of Cambodia recommendation on the percentage of the contribution from the national revenue to Sub-National Investment Fund; ✓ Approve financial contributions from the SNIF's subnational funding pool to subnational administrations; ✓ Approve the SNIF Operational Manual and any revisions to it; ✓ Review and approve the SNIF secretariat and subnational administrations annual work plan, annual investment financing plan, and annual budget; ✓ Review and approve SNIF progress and quarterly and annual financial reports. The approved annual SNIF progress and financial reports shall submit to the Royal Government and concerned agencies and development partners; ✓ Review and evaluate the implementation of SNIF budget; ✓ Review and evaluate the performance on the SNIF Secretariat and taking any steps as required to ensure that

Project implementation organizations	Management Roles and Responsibilities
	<p>the SNIF Secretariat fulfills its mandate;</p> <ul style="list-style-type: none"> ✓ Ensure the effectiveness and efficiency of SNIF's management; ✓ Ensure dissemination to subnational administrations, relevant ministries/institutions and relevant development partners in publication or electronic form the policy framework and strategy for public investment project by subnational administrations; ✓ Total resource for investment by subnational administration, formula, and preliminary drawing right to eligible SNAs; ✓ Periodical Financial statement, and Evaluation Report; and ✓ Ensure that subnational administrations receive training and understand clearly about the SNIF Operational Manual.
Implementing Agency	<p>The SNIF Secretariat will be the implementing agency, responsible for all aspects of project administration, including the following:</p> <ul style="list-style-type: none"> ✓ Open and monitor an imprest account under the management of the SNIF Secretariat; ✓ Hire and monitor external auditors to audit annual project financial statements; ✓ Coordinate daily operation in accordance with the policies, instructions and decisions of the SNIF Board and manage or implement the activities of the SNIF in line with approved SNIF procedures and the SNIF Operation Manual; ✓ Submit annual work plans, annual investment financing plans and annual budgets to the SNIF Board for review and approval; ✓ Prepare regular progress and financial reports for SNIF Board for review and approval; ✓ Report to the SNIF Board any emerging issues of policy or strategy regarding the management of the SNIF; ✓ Submit the SNIF Operational Manual and any revisions or updates to the SNIF Board for review and approval; ✓ Mobilize internal and external resources to ensure that the implementation of investment financing projects by subnational administrations are effective and efficient; ✓ Manage SNIF Board's operating expenses and budget; ✓ May perform as an operator of the projects or programs financed by development partners in accordance with the coordination between development partners and SNIF board's decision; ✓ Inform subnational administrations and other stakeholders the SNIF's operating procedures and other decisions; ✓ Organize and coordinate capacity development for subnational administrations aimed at improving the use of SNIF resources and promoting the implementation of public investment project more effective and efficient; ✓ Disseminate widely to subnational administrations, relevant

Project implementation organizations	Management Roles and Responsibilities
	<p>ministries/institutions and relevant development partners in publication or electronic form the documents such as policy framework and strategy for public investment project by subnational administrations, defining and evaluation of Eligibility Criteria for subnational administrations, criteria for evaluating the investment proposals, total resource for investment by subnational administrations, formula, and preliminary drawing right to eligible SNAs, periodical financial statement, and evaluation report;</p> <ul style="list-style-type: none"> ✓ Assess the eligibility of subnational administrations to compete for receiving the resource from SNIF; ✓ Assess and verify the compliance of subnational administrations' investment project proposals with SNIF access requirements; ✓ Inform the result of the assessment and verification; ✓ Monitor and evaluate the implementation of subnational investment projects financed by the SNIF; ✓ Perform other tasks determined by SNIF Board's decision; ✓ Coordination with ADB and the participating District SNAs for smooth project implementation; ✓ Ensuring compliance of covenants and safeguards; ✓ Procuring vehicles, equipment, and project consultants; also monitor consultants' performance; ✓ Updating project procurement plan, monitor procurement processes and all constructions by the Districts. Support the Districts in preparing bid documents and bid evaluation as required; ✓ Identifying staff to support implementation of the project/SNIF operation; ✓ Managing SNIF imprest account for Secretariat support and the investment fund for the district projects; ✓ Other task and responsibilities as described in the SNIF Secretariat Operations Manual including organizing an annual eligibility assessment of all the Districts; ✓ Drafting a District Operational Manual for SNIF investment projects; and ✓ Recruiting external auditors to audit annual project financial statements. Monitor the submission of the audited annual project financial statements within 3 months after the end of each fiscal year of project implementation, and quarterly statements as needed by the board.
ADB	<ul style="list-style-type: none"> ➤ Responsible for overseeing all aspect of project administration, give no-objections to procurement requests from the EA, monitor contract awards and disbursements, review of work plans and progress reports; ➤ Undertake six-monthly and midterm reviews of the project; and ➤ Monitor the selection of consultants for the SNIFS, including in the preparation of terms of reference, advertisement, and

Project implementation organizations	Management Roles and Responsibilities
	selection, and provides assistance during contract negotiations.

EA = executing agency, DPSFM = Decentralized Public Service and Financial Management Program, MEF = Ministry of Economy and Finance, MOI = Ministry of Interior, NBC = National Bank of Cambodia, SNA = subnational administrations; SNIF = Sub-National Investment Fund.

B. Key Persons Involved in Implementation

Executing Agency Ministry of Economy and Finance (MEF)

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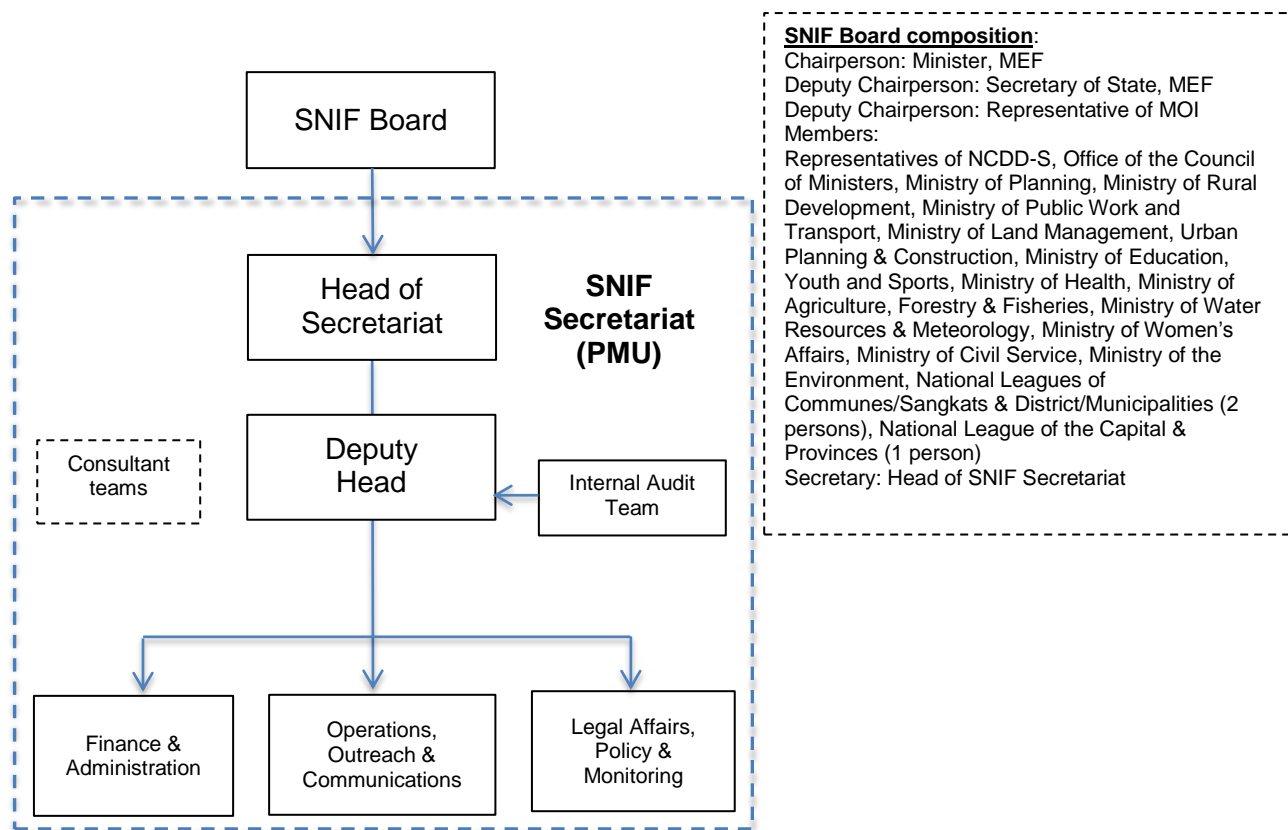
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C. Project Organization Structure

11. The Chart 1 shows the SNIF Organization Structure including its reporting lines essential internal structures of key organizations involved in the project implementation:

Chart 1: SNIF Organization Structure



Source: MEF, Cambodia, 2015.

IV. COSTS AND FINANCING

12. For the DPSFM, subprogram 2, the government has requested from ADB's Special Funds resources for \$35 million in total: \$15 million for the policy-based loan and \$20 million for the project loan. The overall project will cost about \$30.7 million equivalent (Table 1) with \$10.7 million cost-sharing from the government.

Table 1: Financing Plan (\$ million)

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (project loan)	20.00	65.15
Royal Government of Cambodia	10.70	34.85
Total	30.70	100.00

^a Bank charges related to imprest account may be financed from the loan proceeds.

Source: Asian Development Bank estimates.

13. **Project Loan Investment Plan:** The government has requested a loan of \$10 million equivalent from ADB's Special Funds resources to finance the outlined project outputs and activities, including taxes and duties related to ADB funded expenditures (Table 2).⁴ The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the loan agreement. The government will also contribute counterpart support in the SNIF investment fund, counterpart staff, office space, communications and other facilities.

Table 2: Project Investment Plan (\$ million)

Item	Amount ^a	Percent
A. Base Cost ^b		
1. SNIF Investment Fund	23.90	77.85
2. SNIF Secretariat Support	4.89	15.93
Total Base Cost (A)	28.79	93.78
B. Contingencies ^c	1.52	4.95
C. Financing Charges During Implementation ^d	0.39	1.27
Total	30.70	100.00

^a Inclusive of local taxes and duties of \$2.74 million, to be financed from the government resources or ADB loan resources for each related expenditures.

^b In mid-2015 prices.

^c Physical contingencies computed at 3% for civil works (funded by the SNIF investment fund), vehicles, training and price contingencies computed in accordance with international and national escalation factor on foreign change costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Estimated on the basis of 1% interest rate per annum accrued on the disbursed loan amount

Source: Asian Development Bank estimates.

14. **Detailed cost tables:** The following tables present the cost summaries by: (i) expenditure category; (ii) allocation and withdrawal of loan proceeds; (iii) financiers; (iv) outputs and/or components; (v) years; (vi) contract awards and disbursements; and (vii) SNIF Fund Flow Diagram.

⁴ Inclusion of taxes on ADB-financed project expenditures is consistent with the current country partnership strategy. Financing of taxes does not represent an excessive share of the project cost.

A. Detailed Cost Estimates by Expenditure Category (\$ Million)

	Items	\$ Million	Riel. Million	% Total
A. SNIF Investment Fund				
1	Civil Works ¹	23.90	95,877.93	77.85
	- ADB	17.25	69,204.78	56.19
	- The Government	6.65	26,673.15	21.66
B. SNIF Secretariat Support				
2	Vehicle, Equipment, Furniture ²	4.89	19,615.13	15.93
3	Consulting Services	0.11	449.23	0.36
	- ADB	1.90	7,620.90	6.19
	- The Government	0.97	3,870.62	3.14
4	Trainings, Workshops and Seminars	0.94	3,750.29	3.05
	- ADB	0.50	1,998.81	1.62
	- The Government	0.30	1,183.25	0.96
5	Incremental O&M Costs	0.20	815.57	0.66
	- ADB	2.38	9,546.18	7.75
	- The Government	-	-	-
	Total Base Costs	28.79	115,493.05	93.78
	Contingencies (unallocated)	1.52	6,083.70	4.94
	a. Physical	0.72	2,876.34	2.34
	b. Price	0.80	3,207.36	2.60
	Interest During Implementation	0.39	1,576.82	1.28
	Total Project Cost	30.70	123,153.58	100.00

Source: Asian Development Bank estimates.

¹ Attached in Annex 1 are the proposed indicative lists of kinds of district-level investments that can be funded by SNIF. It could range from new facilities or rehabilitation of existing facilities like schools, clinics, roads, irrigation projects, etc.

² Includes one vehicle (4x4) and various office equipment and furniture.

B. Allocation and Withdrawal of Loan Proceeds

No.	Item	Total Amount Allocated for ADB Financing (SDR) Category	ADB Financing
			Basis for Withdrawal from Loan Account
1	Civil Works*	17.25	100% of total expenditure claimed
2	Secretariat support and operations (vehicle, equipment, furniture, consulting services, trainings, workshops and seminars)*	1.38	100% of total expenditure claimed
3	Interest During Implementation	0.39	100% of amount due
4	Unallocated	0.98	
	Total	20.00	

*Subject to the condition for withdrawal described in paragraph 6 of Schedule 3.
Source: Asian Development Bank estimates.

C. Detailed Cost Estimates by Financier (\$ Million)

Items	ADB	%	Government	%	Total	%	Duties/Taxes
A. SNIF Investment Fund							
1 Civil Works	17.25	72	6.65	28	23.90	77.85	2.39
- ADB	17.25	100	-	-	17.25	56.19	1.73
- The Government	-	-	6.65	100	6.65	21.66	0.67
B. SNIF Secretariat Support							
2 Vehicle, Equipment, Furniture	0.11	100	-	-	0.11	0.36	0.01
3 Consulting Services	0.97	51	0.94	49	1.90	6.19	0.10
- ADB	0.97	100	-	-	0.97	3.14	0.10
- The Government	-	-	0.94	100	0.94	3.05	
4 Trainings, Workshops and Seminars	0.30	59	0.20	41	0.50	1.62	
- ADB	0.30	100	-	-	0.30	0.96	
- The Government	-	-	0.20	100	0.20	0.66	
5 Incremental O&M Costs	-	-	2.38	100	2.38	7.75	0.24
- ADB	-	-	-	-	-	0.00	-
- The Government	-	-	2.38	100	2.38	7.75	0.24
Total Base Costs	18.63	65	10.17	35	28.79	93.78	2.74
Contingencies (unallocated)	0.98	65	0.54	35	1.52	4.94	-
a. Physical	0.46		0.25		0.72	2.34	-
b. Price	0.52		0.28		0.80	2.60	-
Interest During Implementation	0.39	100	-	-	0.39	1.28	-
Total Project Cost	20.00	65	10.70	35	30.70	100.00	2.74

¹ Includes duties/taxes of \$2.74 million to be financed by related financiers.

Source: Asian Development Bank estimates.

D. Detailed Cost Estimates by Outputs/Components (\$ Million)

Items	SNIF Investment Fund	%	SNIF Secretariat Support	%	Total
A. SNIF Investment Fund					
1 Civil Works					
- ADB	17.25	100			7.60
- The Government	6.65	100			6.65
B. SNIF Secretariat Support					
2 Vehicle, Equipment, Furniture			0.11	100	0.11
3 Consulting Services			1.90	100	1.90
- ADB			0.97		0.97
- The Government			0.94		0.94
4 Trainings, Workshops and Seminars			0.50	100	0.50
- ADB			0.30		0.30
- The Government			0.20		0.20
5 Incremental O&M Costs			2.38	100	2.38
- ADB			-	-	-
- The Government			2.38	100	2.38
Total Base Costs	23.90	83	4.89	17	28.79
Contingencies (unallocated)	1.26	83	0.26	17	1.52
a. Physical	0.60	83	0.12	17	0.72
b. Price	0.66	83	0.14	17	0.80
Interest During Implementation	0.33	83	0.07	17	0.39
Total Project Cost	25.49	83	5.21	17	30.70

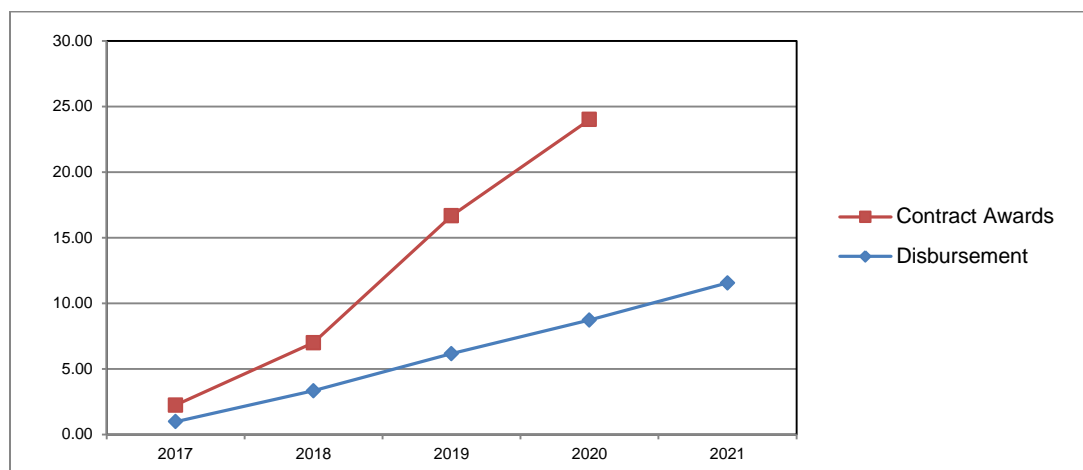
Source: Asian Development Bank estimates.

E. Detailed Cost Estimates by Year (\$ Million)

Items	2017	2018	2019	2020	2021	Total
A. SNIF Investment Fund						
1 Civil Works	-	2.24	4.73	7.17	9.76	23.90
B. SNIF Secretariat Support						
2. Vehicle, Equipment, Furniture	0.11	0.00	0.00	0.00	0.00	0.11
3. Consulting Services	0.35	0.33	0.42	0.35	0.46	1.90
4. Trainings, Workshops and Seminars	0.06	0.11	0.13	0.14	0.06	0.50
5. Incremental O&M Costs	0.40	0.45	0.51	0.51	0.51	2.38
Total Base Costs	0.92	3.14	5.79	8.17	10.79	28.79
Contingencies (unallocated)	0.05	0.17	0.30	0.43	0.57	1.52
a. Physical	0.02	0.08	0.14	0.20	0.27	0.72
b. Price	0.03	0.09	0.16	0.23	0.30	0.80
Interest During Implementation	0.00	0.02	0.06	0.12	0.19	0.39
Total Project Cost	0.97	3.32	6.15	8.71	11.54	30.70

Source: Asian Development Bank estimates.

F. Contract and Disbursement S-curve (in \$ Million)



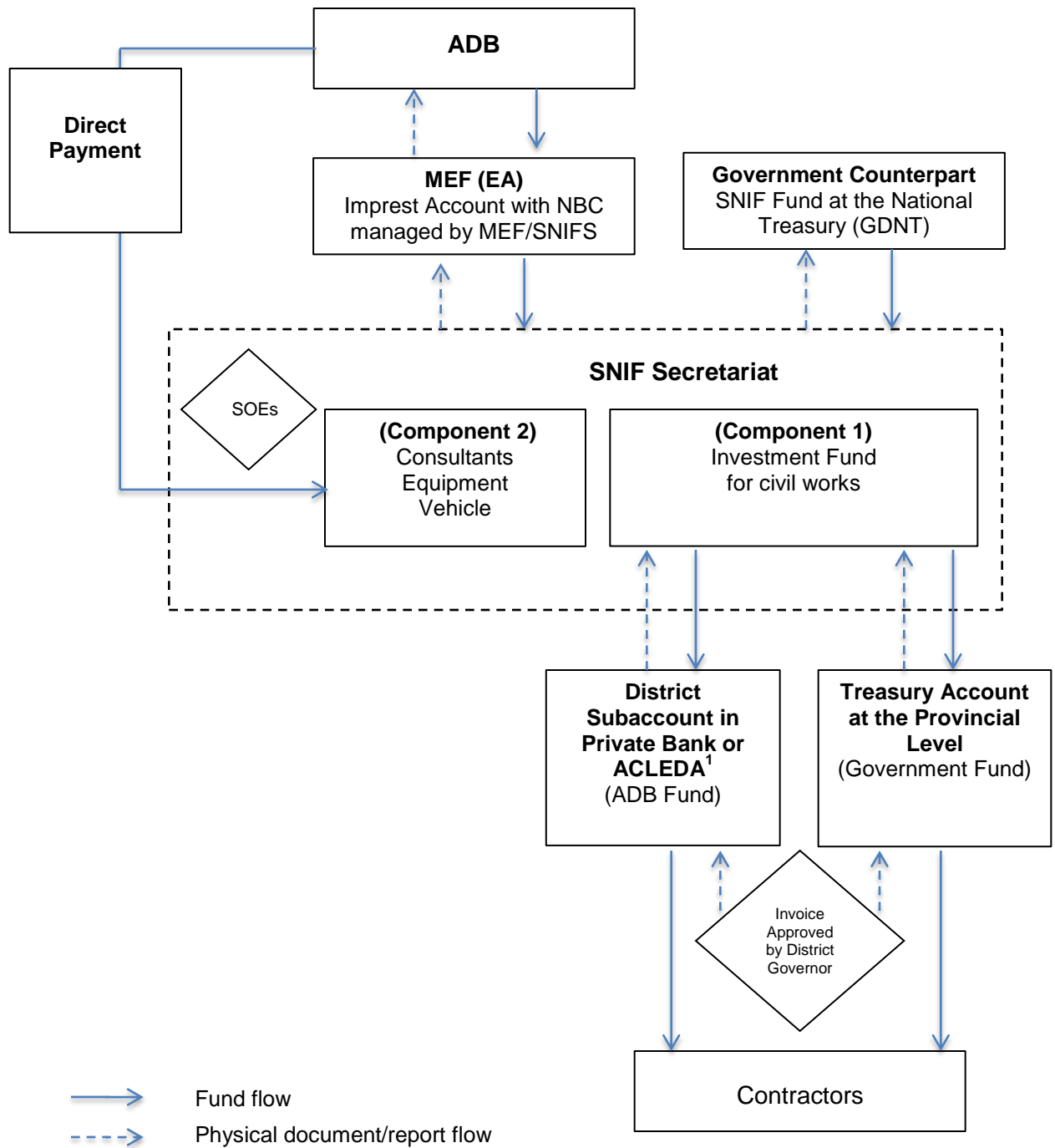
	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contract Award	0	0	1.26	0	0	0	3.66	0
Disbursements	0	0	0	0.97	0	0	0	3.32

	2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contract Award	0	0	10.51	0	0	0	15.28	0
Disbursements	0	0	0	6.15	0	0	0	8.71

	2021			
	Q1	Q2	Q3	Q4
Contract Award	0	0	0	0
Disbursements	0	0	0	11.54

Source: Asian Development Bank estimates.

G. SNIF Fund Flow Diagram



¹ Major commercial bank based in Phnom Penh, Cambodia with 236 offices covering all provinces, as well as 25 in Laos.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

15. The purpose of this FMA was to determine the robustness of the accounting, financial controls and internal audit arrangements, and the capability of the EA and IA to meet all the fiduciary requirements which are set out in the loan agreement and other project documents. Within this context, the PAM presents results of a FMA of the EA and IA including agreed project financial arrangements financial responsibilities of each of the EA and IA, and associated entities and perceived financial risks and risk management. This FMA also provides guidance to the EA, IAs and other stakeholders to prepare proper mitigation measures to ensure the effective project performance, following country laws and regulations as well as ADB's requirements.

16. The FMA Report (Annex 2) was drafted during a fact-finding mission (27 April to 6 May 2015). It may need to be amended further to reflect subsequent developments and agreements during the Project implementation. The FMA preparatory activities include reviewing documents, interviewing staff of government agencies, consultants, beneficiaries and other stakeholders. The FMA Report was prepared in accordance with ADB's Guidelines for the *Financial Management and Analysis of Projects*⁵ (the Guidelines) and the publication *Financial Due Diligence: A Methodology Note*.⁶ This FMA incorporates the Financial Management Internal Control and Risk Management Assessment required by the Guidelines.

Summary Country Assessment

17. The FMA draws closely on the substantive diagnostic work in the public financial management (PFM) field, in particular the PFM Assessment contained in the Public Expenditure Financial Accountability Framework (PEFA),⁷ and on the external review of the government's PFM Reform Program (PFMRP).⁸ Quarterly monitoring reports of the PFRMP and interviews with key government and non-government stakeholders have also been incorporated in the assessment. The analysis indicates that there are a broad range of reform areas to address for Cambodia to lift its PFM performance, but also acknowledges that significant progress has been made since commencement of PFMRP in 2004. These improvements include progress in virtually all of the major areas of fiduciary risk identified in 2002, including budget formulation, internal controls, treasury operations (especially in cash management), accounting systems, and internal and external auditing.

18. Good progress is observed with regard to: (i) tax revenue administration; (ii) budget preparation; (iii) budget execution; (iv) macro-fiscal discipline; (v) debt management; (vi) streamlining the commitments/payments system; (vii) decreasing the use of cash transactions; (viii) consolidating bank accounts and strengthening the Treasury Single Account; (ix) reporting; (x) linking civil service recruitment to the budget; (xi) capturing externally financed investment in financial plans and statements; and (xii) developing systems and human

⁵ ADB. 2005. *Financial Management and Analysis of Projects*. Manila. Refer to page 14 of Knowledge Management Addendum for more information on the Financial Management Assessment.

⁶ ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila. Refer to page 3 for more information on the Financial Management Assessment.

⁷ Ministry of Economy and Finance, Cambodia. 2010. *Public Financial Management Assessment of Cambodia – Based on the Public Expenditure Financial Accountability Framework (PEFA)*. Phnom Penh.

⁸ External Advisory Panel. 2010. *Public Financial Management Reform Program – Final External Advisory Panel Report*. Phnom Penh.

capacities. The ongoing weaknesses in some areas include: (i) development of the internal audit function; (ii) further strengthening revenue administration—especially compliance; (iii) further improving cash and bank account management; (iv) addressing delays in functional reviews and change management planning for the Financial Management Information System (FMIS); (v) implementation of a difficult and complex decentralization and de-concentration (D&D) program; (vi) implementing institutional reforms in response to the FMIS and D&D reforms and the devolution of more responsibilities to line ministries; (vii) further strengthening external audit and legislative oversight; and (viii) addressing the need for better harmonized and coordinated development partner support to the program.

19. Financial risks are mitigated through coordinated and comprehensive ADB assistance. Risks to successful project implementation include challenges to the implementation of the comprehensive program of D&D reforms. Those challenges extend from the assignment of functional responsibilities to subnational administrations, to the allocation of adequate financial and human resources for service delivery, and also challenges to the implementation of financial management systems for subnational administrations. ADB will address these challenges by continue to actively engage in policy dialogue with the government, and directly supporting the implementation of the program of reforms contained in the 3-year Implementation Plan (2015–2017).

20. D&D reforms are progressing in coordination with PFM and Public Administration reforms. Through the DPSFM, ADB has assisted the development of the legal and regulatory framework for inter-governmental fiscal relations, and has helped lay out the pillars of subnational financial management systems. These include the development of the subnational chart of accounts and budget classification, procurement regulations, budget formulation and execution and payment procedures among others. In addition, ADB is a leading donor in the support to national PFM reforms, which facilitates the necessary coordination among the two initiatives. The Project counterparts at the MEF are also deeply involved in the management of PFM reforms, establishing a rich communication and cross-fertilization channel between the two parallel reforms. With regard to Public Administration reforms, ADB is not a lead development partner, but is contributing to national reforms efforts through the capacity building initiatives implemented under the PFM for Rural Development Program (PFMRDP) Subprogram 2, and will strengthen national and subnational capacities for local PFM under this project.

21. A good track record in project implementation. The EA and IAs have undergone substantive scrutiny of their financial management and procurement capacities. An assessment of the NCDD-S was undertaken to evaluate its capacity to manage decentralized reforms. The report concluded that internal control is being established and operationalized in the secretariat, and that accounting and external audit functions are well established, and, with procurement, operate to a satisfactory degree.⁹ The MEF, which chairs the SNIF Board, have demonstrated capacity for the implementation of ADB projects (among others the DPSFM, and the PFMRDP). The procurement and contract implementation responsibilities of District administrations will be strengthened through substantive training in procurement procedures and also through rigorous and regular backstopping from the technical team. The SNIF Board will transfer the skills and knowledge to the SNIF Secretariat that will be the implementing agency (IA) of the Project.

⁹ European Commission Development and Cooperation. 2011. *Assessment Concerning Decentralized Management*. Phnom Penh.

23. The government has a fairly comprehensive Manual of Accounting Procedures that is intended to be uniformly applied across departments. However, the accounting procedures and policies have not been consistently applied due to incapability of the accounting staff to implement the manual. The staffs need more training to properly apply the procedures. The bookkeeping including for all foreign funded projects were carried out on Excel spread sheets that is not automated. The government will continue to improve its current system to allow proper recording of all transactions. The expenditures will be recorded in accordance with the respective components, expenditure and disbursement categories, and sources of funds. The system will be further developed to ensure that controls in place concerning the preparation and approval of transactions, and all transactions will be correctly made and adequately explained. Each department will also prepare a chart of accounts to properly report the project activities in accordance with the disbursement categories. It will also improve its accounting policies and procedures. This will ensure that costs allocations will be accurate and in accordance with established agreement with ADB. It will also organize appropriate accounting system to ensure that the General- and subsidiary ledgers are reconciled and in balance. All the accounting and supporting documents will be retained on a permanent basis in a defined system that will allow authorized users for easy access.

24. Budgeting System and Payments: Accounting division in each line ministry is responsible for preparing annual budget with inputs from responsible units, including for SNIF Secretariat under MEF. The MEF Minister will approve the budget and ensure that resources were available; and the budget has been coordinated with the procurement plans. SNIF Secretariat will compare the actual expenditures to the budget at least on a quarterly basis, and explain significant variations. The procedures will be in place to plan project activities, collect information to ensure that the budgets were realistic, based on valid assumptions, and developed by knowledgeable individuals (ADB staff, consultants, and the government staff).

Financial management of the SNIF

25. Institutional structure of SNIF. A Sub-national Investment Fund Board will govern the Sub-National Investment Fund. The roles and responsibilities of the Board includes the following:

- a. Develop the broad policy framework and strategy for public investment project implemented by subnational administrations, in line with the Royal Government's over-arching policy on subnational democratic development;
- b. Monitor and evaluate the consistency and effectiveness of the use of sub-national investment funds with the Government's policies;
- c. Approve financial contributions from the SNIF's subnational funding pool to subnational administrations;
- d. Review and approve the SNIF secretariat and subnational administrations annual work plan, annual investment financing plan, and annual budget;
- e. Review and approve SNIF progress and quarterly and annual financial reports. The approved annual SNIF progress and financial reports shall submit to the Royal Government and concerned agencies and development partners;
- f. Review and evaluate the implementation of SNIF budget;
- g. Review and evaluate the performance on the SNIF Secretariat and taking any steps as required to ensure that the SNIF Secretariat fulfils its mandate;
- h. Ensure the effectiveness and efficiency of SNIF's management;
- i. Ensure widely dissemination to subnational administrations, relevant ministries/institutions and relevant development partners in publication or electronic form of following documents:

- i. policy framework and strategy for public investment project by subnational administrations;
- ii. Defining and Evaluation of Eligibility Criteria for subnational administrations
- iii. Criteria for evaluating the investment proposals;
- iv. Total resource for investment by subnational administrations, formula, and preliminary drawing right to eligible SNAs;
- v. Periodical Financial statement, and Evaluation Report;
- vi. Ensure that subnational administrations receive training and understand clearly about the SNIF Operational Manual.

26. A SNIF Secretariat will be established to assist daily operation of SNIF board. The Secretariat will be located at the Ministry of Economy and Finance and will have, among others, the following roles and responsibilities:

- a. Coordinate daily operations of the Fund in accordance with the policies, instructions and decisions of the SNIF Board and manage or implement the activities of the SNIF in line with approved SNIF procedures and the SNIF Operation Manual;
- b. Submit annual work plans, annual investment financing plans and annual budgets to the SNIF Board for review and approval;
- c. Prepare regular progress and financial reports for SNIF Board for review and approval;
- d. Submit the SNIF Operational Manual and any revisions or updates to the SNIF Board for review and approval;
- e. Mobilize internal and external resources to ensure that the implementation of investment financing projects by subnational administrations is effective and efficient;
- f. Manage SNIF Board's finance;
- g. Perform as an operator of the projects or programs financed by development partners in accordance with the coordination between those development partners and SNIF board's decision;
- h. Inform subnational administrations and other stakeholders the SNIF's operating procedures and other decisions;
- i. Organize and coordinate capacity development for subnational administrations aimed at improving the use of SNIF resources and promoting the efficient implementation of public investment projects;
- j. Disseminate widely to sub-national administrations, relevant ministries/institutions and relevant development partners in publication or electronic form documents such as policy framework and strategy for public investment project by subnational administrations, defining and evaluation of Eligibility Criteria for subnational administrations, criteria for evaluating the investment proposals, total resource for investment by subnational administrations, formula, and preliminary drawing rights to eligible SNAs, periodical financial statement, and evaluation reports;
- k. Assess the eligibility of subnational administrations to compete for receiving the resource from SNIF;
- l. Assess and verify the compliance of subnational administrations' investment project proposals with SNIF access requirements;
- m. Inform the result of the assessment and verification;
- n. Monitor and evaluate the implementation of subnational investment projects financed by the SNIF.

27. The EA will delegate its responsibility to the SNIF Secretariat for day-to-day implementation responsibilities. The Secretariat will act as the central project management unit, led by a Head of Secretariat. The Head of the SNIF Secretariat will be supported by a deputy

head, and technical and financial experts who will be recruited on permanent and contractual basis. The terms of reference of the key personnel are given in PAM (Annex 3). For the first few years, the Secretariat staff will be supported by consulting teams.

28. SNIF Secretariat will be located within the offices of the MEF to manage the regular operations and activities of the Sub-National Investment Fund (SNIF), in accordance with orientations provided by the Sub-National Investment Fund Board (SNIFB). The SNIF will mainly finance infrastructure subprojects at subnational administrations (SNAs). In its first phase of operations, the SNIF will focus on Districts, and extending the coverage of activities to a number of municipalities will be eventually considered.

29. Financial Transparency. With a view towards transparency in the management of the SNIF operations, the Secretariat will disseminate widely to subnational administrations, relevant ministries/institutions and relevant development partners, in publication or electronic form, documents such as the policy framework and strategy for public investment projects by subnational administrations, the eligibility criteria for subnational administrations to participate of the SNIF, the criteria for evaluating the investment proposals, the total amount of resources available for investment by subnational administrations, the formula, and preliminary drawing rights to eligible SNAs, the periodical financial statements, and the evaluation reports.

30. Accounting Systems. The SNIF Secretariat will maintain separate accounts and records for all expenditures incurred on its investments by funding sources. Recording and reporting of transactions of the expenditures will be consistent with the Chart of Accounts and Budget Classification of the Government (2007) and Government's 2012 Standard Operating procedures (SOP) for Externally Financed Projects/Programs (as updated from time to time). As per Chart 2, the SNIF Secretariat will have Finance & Administration Unit that will be staffed adequately to manage funds from all financiers. The Project will provide additional training to manage financial and accounting procedures in accordance with ADB standards. The SNIF Secretariat will have written job descriptions to clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the staff that will be involved in its investments.

31. Audit procedures. The SNIF Board will appoint one official as an internal auditor. The internal auditor will assist SNIF Secretariat to review financial and budget management for their compliance with existing regulations defined by the SNIF Board Decision. In addition, the SNIF's annual financial report will be subject to auditing by competent agencies to ensure accuracy of financial data, evaluation of performance and financial procedures, and of project implementation by SNAs. The audit reports, combining the comments from SNAs, SNIF secretariat and relevant agencies shall be disclosed publicly. The account and operations of the SNIF, as well as account and operations of eligible SNAs will be audited by a national institution or independent auditor as agreed by development partners and the Royal Government of Cambodia.

32. Roles and responsibilities of the participating SNAs. At the participating districts, the administrations, headed by the District Governor, will coordinate and supervise project identification and implementation activities. In particular, they will lead the identification of project proposals in coordination with communes, will facilitate community participation in all project activities; will coordinate participatory consultation processes, etc. District administrations will ensure that no local project will involve physical displacement, denial of access, and/or resettlement activities. District administration will also conduct activities related to environment management; indigenous people development; gender action plan; and will monitor and report on the implementation progress.

33. The SNAs shall receive two streams of funding from SNIF if they pass both the annual performance assessment (APA, which determines the SNAs that can apply to SNIF) and the investment project proposal (IPP) approval process. The fund releases are triggered by the same two processes:
- a. District APA results and eligibility: when a district has passed the APA and is found eligible to submit Investment Project Proposal (IPP) for SNIF financing eligible for submitting investment proposals to the SNIF secretariat, a Project Preparation Grant (PPG) of two per cent (2%) will be released to cover technical advisory services related to preparation of IPP(s);
 - b. Approval of District IPP: when a district get confirmation about approved IPP(s), the actual amount of the IPP(s) will be made available.
34. The District Governor, on behalf the council, shall act as the principal budget administrator of the SNIF contributions to the district. As such, the Governor shall:
- a. Open a SNIF district subaccount in a private bank (for the ADB funds) and the provincial treasury (for the government funds) to be used for managing its SNIF contributions (revenue) and expenditure budget transactions;
 - b. Authorize SNIF expenditure commitments;
 - c. Authorize SNIF related payments within the limits of the approved SNIF budgetary appropriations;
 - d. Ensure that SNIF financial accountability for the SNIF contribution to the district.
35. The Provincial Treasury (PT) shall assume the function as SNIF accountant for the implementation of the SNIF contributions to the district, as such, the SNIF accountant shall be responsible for the following duties:
- a. Acknowledge receipt of SNIF contributions to the SNIF Secretariat;
 - b. Verify and execute Payment Orders (PO) issued by the District SNIF principal budget administrator, implement financial accounting in accordance with enforced SNIF principles and regulations;
 - c. Prepare the periodic financial statements including SNIF contributions and expenditures; and
 - d. File and safeguard for at least 10-year all documents supporting the transactions settled through the SNIF treasury deposit account.
36. The District administration and finance office under the supervision of the District Governor shall:
- a. Keep a District SNIF financial record for all SNIF funded budgets, activities and expenditures;
 - b. Prepare Expenditure Commitment letter for the District Governor to sign;
 - c. Ensure that all documentations and requests for payments are in line with District SNIF approved budgets and commitments (contracts);
 - d. Prepare PO for the District Governor to sign;
 - e. Administer the District SNIF Petty Cash records [if SNIF will apply this] and District Governor authorized payments;
 - f. Reconcile the District SNIF financial records and the PT financial records on a quarterly basis; and
 - g. Support the District Governor is preparing quarterly SNIF activity and finance reports.
37. Below we offer a summary of the inherent risks to the project:

Table 1: The Summary of Inherent Risks

Risks	Risk Assessment*	Risk-Mitigation Measures
1. Country-Specific Risks: <ul style="list-style-type: none"> Lack capacity of the government to properly allocate adequate and sustainable budget to support activities funded through SNIF Secretariat Lack of experience of subnational administrations (SNAs) in implementing investment projects. 	Low	<ul style="list-style-type: none"> The SNIF subdecree includes a provision for the automatic appropriation of a certain percentage of national revenues as contribution to the Fund. This allocation will be enough to cover all recurrent expenditures and an increasing contribution to the investment component. Adequate training is being provided and will continue to be provided, on procurement and financial management to participating SNAs.
2. Entity-Specific Risks: <ul style="list-style-type: none"> Significant number of infrastructure investment activities with multi-stakeholder management; Potential dependency to contractual staff and consultants until SNIF is fully managed by regular staff. Ensuring an adequate level of government budget (for regular budget, grants and debts) since most infrastructure will be non-revenue public assets and the funds will be fully granted to the districts 	Moderate	<ul style="list-style-type: none"> Strong SNIF Secretariat will provide adequate support; positive list of sub-sectors for investment will reduce the variance in investment activities. SNIF Secretariat will establish a clear roadmap on its organizational structure, the TORs, and the budget to reduce dependence to contractual staff and consultants; Financial modalities from SNIF Secretariat will be updated when districts will have strong capacity to deal with other support such as potential sub-lending mechanisms.
3. Project-Specific Risks <ul style="list-style-type: none"> Viability and sustainability of various infrastructure and livelihoods investments that will be funded by the Project 	Moderate	<ul style="list-style-type: none"> Prepare detailed feasibility for each specific project and ensure the sense of belonging of the end users to take care O&M of the subprojects.
4. Project-Specific Risks <ul style="list-style-type: none"> Viability and sustainability of various infrastructure and livelihoods investments that will be funded by the Project 	Moderate	
Overall Inherent Risk	Moderate	

* H = High, S = Substantial, M = Moderate, N = Negligible or Low

38. The Control Risks focus on FM issues including the executing and implementing entities, fund flow, staffing, accounting policies and procedures, internal audit, reporting and monitoring and information system, as the following:

Table 2: Summary of Control Risks

Risks	Risk Assessment*	Risk-Mitigation Measures
1. Executing and Implementing Entity: <ul style="list-style-type: none"> As a new established SNIF Secretariat within MEF (the IA), its experience in managing fund flow and sub-projects in selected districts will be very limited; As beneficiaries of the SNIF, the existing 159 districts have limited experience in managing fund flow and procuring assets through bidding 	Moderate	<ul style="list-style-type: none"> Strong team (permanent, contractual and consultants) will be recruited to manage SNIF Secretariat. Adequate capacity building will be provided to participating districts; most districts are however staffed with seasoned bureaucrats, all of them with procurement experience

<p>processes.</p> <ul style="list-style-type: none"> Unclear segregation between assets managed by districts and communes 		<p>in line departments or oversight agencies.</p> <ul style="list-style-type: none"> Clear segregation between public assets managed by districts and commune levels; and written agreements between districts and participating municipalities in managing SNIF supporting subprojects.
<p>2. Funds Flow:</p> <ul style="list-style-type: none"> Potential delays in disbursements and replenishment since the Project will deal with about 70 districts that lack of experience directly dealing with donor funded projects; Uncertain availability of the regular government budget at national and state level to support the Project; Unclear sources for financing regular costs for O&M to sustain the investments; Potential overlapping between District Municipality (DM) Fund and SNIF operations 	Substantial	<ul style="list-style-type: none"> Intensive coordination between EA and IAs in procurement and disbursement process, Provide training in Financial Management, disbursement and procurement procedures as defined in the Operations Manual and in line with ADB requirements. Include one of the policy triggers to ensure regular budget allocation for SNIF Secretariat. District administration will use their transfers and own revenue collection for O&M cost for all project infrastructure built under SNIF. Clear segregation between DM Funds and SNIF.
<p>3. Staffing</p> <ul style="list-style-type: none"> SNIF Secretariat staff has not been recruited: potential political interventions in recruitment process for higher management positions; lack of transparency in the recruitment of contractual staff and consultants. 	Moderate	<ul style="list-style-type: none"> Advanced actions will include clearing and advertising acceptable TORs for all staff who will work for SNIF Secretariat and transparency in recruitment process. Adequate capacity building for staff of SNIF Secretariat and participating districts will be provided under the project.
<p>4. Accounting Policies and Procedures: MEF, which chairs the SNIF Board, can transfer its extensive experience and procedures in place to comply with government accounting procedures and safeguards; SNIF Secretariat and participating districts will need capacity building to deal with ODA projects including specific ADB funded projects</p>	Negligible or Low	<ul style="list-style-type: none"> Proper establishment of the SNIF Secretariat and supporting team at participating districts; clear allocation of financial / accounting support from experience senior staff for proper implementation of ADB acceptable according policies and procedures.
<p>5. Internal Audit:</p> <ul style="list-style-type: none"> Lack of internal control for fund flow from MEF to end users; and weak internal control especially within the participating districts 	Substantial	<ul style="list-style-type: none"> Establishment of an internal audit within SNIF Secretariat that will also provide capacity building for the participating districts for the internal audit of SNIF funded subprojects.
<p>6. External Audit</p> <ul style="list-style-type: none"> Incomplete and late submission of audited project financial statements and no involvement of NAA, the Cambodian's supreme audit institution. 	Moderate	<ul style="list-style-type: none"> Update the TORs for the external auditor; and explore potential participation of the NAA to further improve the APFS quality, as well as explore potential performance audit for subprojects.

<p>7. Reporting and Monitoring:</p> <ul style="list-style-type: none"> • Incomplete and late submission of quarterly financial progress reports; and lack of PAM based financial figures in the reports • Inconsistent reports on physical and financial performance of the project. 	Moderate	<ul style="list-style-type: none"> • ADB staff and consultants will train staff of the SNIF Secretariat and participating districts on accounts recording and preparation of financial reports. • will also formulate project accounting policies and procedures to provide guidance to staff • Recruit a financial management specialist and supporting accountants to help SNIF prepare unaudited project financial statements in accordance with standardized cost tables in PAM and on time submission of the reports. • Prepare proper interlinks between physical and financial progress.
Overall Control Risk	Moderate	
* H = High, S = Substantial, M = Moderate, N = Negligible or Low.		

ADB = Asian Development Bank, APFS = audited annual project financial statements, NAA = National Audit Authority
PAM = Project Administration Manual, TOR = terms of reference.

Sources: The Government and Asian Development Bank.

B. Disbursement

39. The Loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),¹⁰ and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available at: http://wpqr4.adb.org/disbursement_elearning. Project staff is encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

40. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS),¹¹ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS.

41. An imprest account will be established by the SNIF Board through the SNIFS for the Project at the National Bank of Cambodia immediately after loan effectiveness to be administered by the SNIF Secretariat as the PMU. The SNIF Board with the SNIFS will be accountable and responsible for the proper use of advances to the imprest account, including advances to any sub-accounts. The total outstanding advance of the imprest account will not at any time exceed the estimated expenditures to be paid from the imprest account for the next 6 months. The currency of the imprest account is in US dollars.

42. The SNIFS will be responsible for (i) preparing the disbursement projections for both components of the project; (ii) requesting budgetary allocations and replenishment of funds; (iii) consolidating supporting documents from all the districts and liquidation of the imprest account; and sending the withdrawal applications to ADB for the two components. The request for initial and additional advances to the imprest account are based on an Estimate of Expenditure Sheet¹² setting out the estimated expenditures for the forthcoming six (6) months of project implementation. For every liquidation and replenishment request of the imprest account,

¹⁰ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf

¹¹ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

¹² Available in Appendix 10B of the *Loan Disbursement Handbook*.

the borrower will furnish to ADB (a) Statement of Account (Bank Statement) where the imprest account is maintained, and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against the EA's records.¹³ The imprest account and subaccounts will be used exclusively for ADB's share of eligible expenditures and will be replenished and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

43. For component 1, districts may open subaccounts and request for advance and replenishment of the district subaccounts will be submitted to the SNIFS for review, consolidation and submission of WAs to ADB. Training will be provided by SNIFS to the procurement and financial management committee of each district on project implementation and financial reporting.

44. The statement of expenditure (SOE) procedure will be used for reimbursement, liquidation and replenishment of the imprest account for eligible expenditures under both components. SOE procedures will only apply for eligible expenditures not exceeding equivalent of \$25,000 per individual payment. The SNIF Board has the capacity, but since the SNIFS is new the ceiling may be revisited as the project evolves. For payments exceeding \$25,000, full supporting documents will be required such as contractor's invoice claim or proof of payment to the contractors. SOE records should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.¹⁴

45. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is in accordance with the *Loan Disbursement Handbook* (2015, as amended from time to time). Individual payments below such amount should be paid by the EA/IA and subsequently claimed from ADB (i) through reimbursement; or (ii) from the imprest account, unless otherwise accepted by ADB.

46. **The government budget:** Separate account(s) will be established and maintained by funding source. The government will use the relevant disbursement and liquidation procedures for its funds.

C. Accounting

47. The SNIF Board, through the SNIF Secretariat will maintain separate project accounts and records by funding source for all expenditures incurred on the Project. Project accounts will follow international accounting principles and practices or those prescribed by the government's accounting laws and regulations.

D. Auditing and Public Disclosure

48. The SNIF Board will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and in accordance with the government's audit regulations by an auditor acceptable to ADB. The audited financial statements, audit report

¹³ Follow the format provided in Appendix 10C of the *Loan Disbursement Handbook*.

¹⁴ Forms for SOE procedures and formats are available in Appendix 9B of the *Loan Disbursement Handbook*.

and management letter will be submitted in the English language to ADB within 6 months after end of each related fiscal year by the executing agency.

49. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover: (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable).

50. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

51. The government and the SNIF Board have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.¹⁴ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

52. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.¹⁵ After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.¹⁶

VI. PROCUREMENT AND CONSULTING SERVICES

53. This section reflects the project's specific procurement and consulting services arrangements. Procurement will be undertaken in conformity with ADB's *Procurement Guidelines* (2015, as amended from time to time) and the engagement of all consultants will be undertaken in conformity with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). Procurements for the SNIF investment projects under component 1 will follow

¹⁴ ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
- (iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

¹⁵ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

¹⁶ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

procurement methods that are aligned with the Government's SOP (May 2012) and the District/Municipality/Khan Administrations Procurement Methods and Procedures (January 2014). Should there be any discrepancy between the national procedures and the ADB Guidelines, then ADB's Guidelines shall prevail.

54. Overall assessment of the project procurement risk was Medium, and the project is categorized as B. At country level, Cambodia's public procurement system presents moderate risks, the result of a recent procurement assessment completed by ADB. Since 2012, the government has begun to put policies and procedures in place to improve procurement governance. Specific for the Project, risks were identified as substantial, but adequate mitigation measures have been built in to mitigate potential risk occurrence.

A. Advance Contracting

55. All advance contracting will be undertaken in conformity with ADB's *Procurement Guidelines* (2015, as amended from time to time)¹⁷ and ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).¹⁸ The issuance of invitations to bid under advance contracting will be subject to ADB approval. The borrower, the SNIF Board and the SNIF Secretariat (SNIFS) have been advised that approval of advance contracting does not commit ADB to finance the Project.

56. Advance procurement activities may be undertaken for the recruitment of consultants and procurement of goods in conformity with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time) and ADB's *Procurement Guidelines* (2015, as amended from time to time). The issuance of Request for Proposals (RFP) and invitations to bid under advance contracting for consulting services and procurement of goods required by the SNIFS will be subject to ADB approval. In accordance with the agreed project readiness filter for advance action, the SNIFS will prepare the bidding document and seek prior approval from ADB before issuing the bidding document after loan negotiation and ready for contract signing after project is declared effective.

B. Procurement of Goods, Works and Consulting Services

57. Procurement of goods and works for component 2 will be undertaken in accordance with ADB's *Procurement Guidelines* (2015, as amended from time to time) and will be done by the SNIFS. For component 1, the districts will be responsible for the procurement of works for the investment project in accordance with the Government's SOP (May 2012) and the District/Municipality/Khan Administrations Procurement Methods and Procedures (January 2014). Shopping procedures will be used for packages below US\$100,000 and National Competitive Bidding for packages above US\$100,000. Before the start of any procurement, ADB and the government will review the public procurement laws of the central and state governments to ensure consistency with ADB's *Procurement Guidelines* (April 2015, as amended from time to time).

58. **Procurement of Works for Component 1.** In accordance with the districts' procurement procedures, the districts' Procurement Review committee and Bid Evaluation committee will be responsible for these procurements. To assist such process, detailed

¹⁷ Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>

¹⁸ Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>

procedures for the procurement of the districts will be provided in a District Operational Manual (zero draft available upon request). The District OM will provide a step-by-step procedure to be followed with clear responsibilities for all involved parties including project preparation, bidding process, bid evaluation, contract award, contract administration, invoice verifications, payments and account keeping instructions. The project will be granted an exemption to allow District councils to approve projects up to \$100,000, as opposed to the current threshold of \$25,000.

59. The management of the investment subprojects such as new infrastructures/facilities/buildings will follow good practices in the construction of the district offices where the SNAs played a central role on the procurement and administration of the construction processes. The arrangement was efficient and has resulted in high quality standards of buildings. Evidence from the fact-finding mission confirms that district officials' procurement capacities surpass those of their commune level counterparts back when the Commune Council Development Project (CCDP) implementation started. District administration officials display extensive experience as government officials and specifically in the management of procurement processes. They understand procurement principles and are familiar with the procurement processes. The construction of district offices under Loan 2887 that averages at \$250,000 per district is comparatively higher than the expected amount of projects that will be funded by the SNIF which will average at \$70,000 per district.

60. The project will provide additional capacity building assistance to selected Districts on the SNIF Procurement Procedures. Backstopping will equally be provided during the different stages of procurement, although firm selection will be solely the responsibility of the District Procurement review committee that will be established at each of the selected districts. In line with the Government SOP of May 2012, procurement for various infrastructures by the districts will require bid evaluation by a Bid Evaluation Committee, followed by the review and approval of the recommendation of the Bid Evaluation Committee by the District Procurement Review Committee.

C. Procurement Plan

Basic Data

Project Name: Decentralized Public Service and Financial Management Sector Development, Subprogram 2	
Project Number: 41392-023	Approval Number:
Country: The Kingdom of Cambodia	Executing Agency: SNIF Board
Project Procurement Classification: B	Implementing Agency: SNIF Secretariat
Procurement Risk: Medium	
Project Financing Amount: \$ 30.70 million ADB Financing: \$20.00 million Cofinancing (ADB Administered): Non-ADB Financing: \$10.70 million	Project Closing Date: December 2021
Date of First Procurement Plan 15 May 2015	Date of this Procurement Plan: 29 June 2016

A. Methods, Thresholds, Review and 18-Month Procurement Plan

Project Procurement Thresholds

61. Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works		
Method	Threshold	Comments
International Competitive Bidding (ICB) for Works	\$3,000,000 ¹	
International Competitive Bidding for Goods	\$1,000,000 ¹	
National Competitive Bidding (NCB) for Works ²	Beneath that stated for ICB, Works	
National Competitive Bidding for Goods ²	Beneath that stated for ICB, Goods	
Shopping for Works	Below \$100,000	
Shopping for Goods	Below \$100,000	

¹ Refer to PAI 3.03 Appendix 2 for International Competitive Bidding

² Refer to Para. 3 of PAI 3.05 for National Competitive Bidding

Goods and Works Contracts Estimated to Cost \$1 Million or More

62. The following table lists goods and works contracts for which the procurement activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Advertisement Date (quarter/year)	Comments
Not applicable							

Consulting Services Contracts Estimated to Cost \$100,000 or More

63. The following table lists consulting services contracts for which the recruitment activity is either ongoing or expected to commence within the next 18 months.

Package Number	General Description	Estimated Value	Recruitment Method	Review (Prior / Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
1	Annual Performance Assessment	\$230,000	LCS	Prior	Q2/2017	BTP	
2	SNIF Website development & maintenance	\$200,000	LCS	Prior	Q2/2017	BTP	

LCS = least-cost selection

Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000 (Smaller Value Contracts)

64. The following table groups smaller-value goods, works and consulting services contracts for which the activity is either ongoing or expected to commence within the next 18 months.

Goods and Works								
Package Number	General Description	Estimated Value	Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Advertisement Date (quarter/year)	Comments
5								
3	Civil Works	\$17,253,747	190	Shopping (NCB if above \$100,000)	Prior (for first 3 contracts for both		Q3/2017	Works Procurement by Districts. Multiple lots at

					shopping and NCB contracts) ; then Post			an average estimated value of \$70,000 each lot. Domestic (local bidders) preference is applicable. Shopping for Small Works will be applied.
4	Vehicle Four wheel drives	\$40,000	1	Shopping	Prior			Goods Procurement by SNIFS
5	Office equipment	\$5,000	1	Shopping	Prior			Goods Procurement by SNIFS
6	Furniture	\$32,000	1	Shopping	Prior			Goods Procurement by SNIFS
7	Computer, laptop, printer, photocopier	\$35,000	1	Shopping	Prior			Goods Procurement by SNIFS

NCB=National Competitive Bidding.

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior / Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments

B. Indicative List of Packages Required Under the Project

65. The following table provides an indicative list of goods, works and consulting services contracts over the life of the project, other than those mentioned in previous sections (i.e., those expected beyond the current period).

Goods and Works								
Package Number	General Description	Estimated Value	Number of Contracts	Procurement Method	Review [Prior / Post/Post (Sample)]	Bidding Procedure	Advertisement Date (quarter/year)	Comments

Consulting Services								
Package Number	General Description	Estimated Value	Number of Contracts	Recruitment Method	Review (Prior / Post)	Advertisement Date (quarter/year)	Type of Proposal	Comments
8	Technical Backstopping & Review	\$410,000	4	ICS	Prior	Q1/2017	BTP	International (public finance/local gov't & PFM);

Consulting Services								
Package Number	General Description	Estimated Value	Contract Value	Procurement Method	Advertisement Date (quarter/year)	Date of ADB Approval of Contract Award	Date of Completion	Comments

D. Non-ADB Financing

67. The following table lists goods, works and consulting services contracts over the life of the project, financed by Non-ADB sources.

Goods and Works				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Comments
Civil Works	\$6,650,000		According to threshold	Procurement will be done according to National Government Procedure

Consulting Services				
General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Comments
SNIF Secretariat Support	\$3,518,333		According to threshold and requirement	Procurement will be done according to National Government Procedure

National Competitive Bidding

A. Regulation and Reference Documents

68. The procedures to be followed for national competitive bidding shall be those set forth for the "National Competitive Bidding" method in accordance with the Government's SOP (May 2012) and the District /Municipality/Khan Administrations Procurement Methods and Procedures (January 2014). Shopping procedures will be used for packages below US\$100,000 and National Competitive Bidding for packages above US\$100,000. These clarifications and modifications are required for compliance with the provisions of the Procurement Guidelines.

69. For the procurement of ADB financed contracts under National Competitive Bidding (NCB) procedures, the use of harmonized national bidding documents (NCB and National Shopping) developed in consultation with development partners including ADB, is mandatory except where the Government and ADB have agreed to amendments to any part of the documents. The Procurement Manual also advises users to check the ADB website from time to time for any update on ADB documents, which form the basis, among others, of the existing harmonized national bidding documents.

B. Procurement Procedure**1. Application**

70. Contract packages subject to National Competitive Bidding procedures will be those identified as such in the project Procurement Plan. Any change to the mode of procurement of any procurement package in the Procurement Plan shall be made through updating of the Procurement Plan, and only with prior approval of ADB.

2. Sanctioning

71. Bidders shall not be declared ineligible or prohibited from bidding on the basis of barring procedures or sanction lists, except individuals and firms sanctioned by ADB, without prior approval of ADB.

3. Rejection of all Bids and Rebidding

72. The Borrower shall not reject all bids and solicit new bids without ADB's prior concurrence. Even when only one or a few bids is/are submitted, the bidding process may still be considered valid if the bid was satisfactorily advertised and prices are reasonable in comparison to market values.

4. Advertising

73. Bidding of NCB contracts shall be advertised on the ADB website via the posting of the Procurement Plan. Borrowers have the option of requesting ADB to post specific notices in the ADB website.

C. Bidding Documents**5. Use of Bidding Documents**

74. The Standard National Competitive Bidding Documents provided with the Government's Procurement Manual shall be used to the extent possible both for the master bidding documents and the contract-specific bidding documents. The English language version of the procurement documents shall be submitted for ADB review and approval in accordance with agreed review procedures (post and prior review) as indicated in the Procurement Plan. The ADB-approved procurement documents will then be used as a model for all procurement financed by ADB for the project.

6. Bid Evaluation

75. Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

76. A bidder shall not be required, as a condition for award of contract, to undertake obligations not specified in the bidding documents or otherwise to modify the bid as originally submitted.

7. Employer's Right to Accept or Reject Any or All Bids

77. The decision of the Employer to accept or reject any or all bids shall be made in a transparent manner and involve an obligation to inform of the grounds for the decision through the bid evaluation report.

8. ADB Policy Clauses

78. A provision shall be included in all NCB works and goods contracts financed by ADB requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

79. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that the Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for the contract in question.

80. A provision shall be included in all bidding documents for NCB works and goods contracts financed by ADB stating that ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices or any integrity violation in competing for, or in executing, ADB-financed contract.

D. Consultant's Terms of Reference

81. The terms of reference for all consulting services are detailed in Annex 3.

VII. SAFEGUARDS

82. The program is categorized as B for environment and C for all other safeguards. Subprojects funded by the SNIF will be subjected to the subproject selection criteria. Considering that SNIF investments are not predefined, it is not possible to prepare environmental impact assessments for the subprojects prior to project start. Therefore, SNIF subproject selection, screening, categorization, environmental assessments, preparation and implementation of safeguard plans of subprojects will be guided by the Environmental Assessment and Review Framework (EARF) attached as Annex 4. As such, this framework will ensure compliance with established ADB Safeguards Policy Statement (SPS) 2009 and the Government's legislation on environmental management.

83. Only subprojects that are category B for environment and C for involuntary resettlement and indigenous peoples will be included in the program. Each subproject will be categorized following for each safeguard aspect using the categorization forms (Annexes 5–7 provide the categorization forms). Categorization will be undertaken by the implementing agency supported by project consultant/safeguard specialist. The first 10 subproject categorizations will be reviewed and approved by ADB. Thereafter, the implementing agency will review and approve categorizations and ADB will conduct post-review.

84. There will be no land acquisition associated to the implementation of projects under the SNIF, as subproject works are restricted to existing government land. All land to be used will

have clear titles and be free of all encumbrances. These lands will not be occupied or productively used by legal or non-titled occupants. The project design ensures that there will be adequate capacity and capability in the SNIF Secretariat to screen out projects with IR/IP impacts. There will be a functioning monitoring and grievance redress mechanism to ensure remediation of any unexpected impacts.

85. The MEF, and in particular the SNIF Secretariat, will categorize all proposed subprojects to ensure that they are category B for environment and C for involuntary resettlement and indigenous peoples. Review and field visits for sample subprojects confirm that environmental implications are limited to standard small-scale impacts as the expected project value is up to a maximum of \$100,000. Environmental management plans containing environmental guidelines already developed during implementation of earlier activities under the DPSFM will establish rules, procedures, and institutional arrangements to be undertaken with regard to identifying, monitoring, and mitigating adverse environmental impacts due to small civil works activities. The guidelines include a construction site checklist, environmental design criteria, and standardized environmental management plans. The guidelines will be implemented by the district administrations granted funds under the SNIF, and supported by the SNIF Secretariat.

86. Since the program is categorized category B for environment and C for involuntary resettlement and indigenous peoples, the EARF will be disclosed on ADB's website. While subprojects will have no involuntary resettlement and indigenous peoples impacts, subprojects can have minimal adverse construction-related impacts. To avoid adverse impacts and to mitigate minimal impacts that cannot be avoided, each subproject will follow environment guidelines. The environment guidelines have three requirements: (i) completing a construction site checklist; (ii) complying with environmental design criteria; and (iii) developing and implementing an environmental management plan (EMP). The project location is selected based on the criteria that there will be no private land acquisition and the available public land is not occupied or productively used. Overall implementation of the guidelines will be through the SNIF Secretariat supported by project consultants.

87. For approved subprojects following the subproject selection criteria and categorized as C for all safeguards, the construction site checklist will be completed by the SNIF Secretariat with support from project consultants and in consultation with the District SNA. The implementing agency with support from project consultants will then prepare the EMP.

88. The SNIF Secretariat will provide support from program consultants and through the District Technician will conduct briefings to contractors on (i) the environmental design criteria, and (ii) the environmental management plan. Contractors working with District Supervisors (trained by project consultants) will incorporate then environmental design criteria and the EMP in their completed work plans which are to be submitted to the District Technician. The contractors' work plans should clearly list: (i) environmental impacts that can occur during construction; and (ii) mitigation measures to be applied by the contractor.

89. The District Site Supervisor will be responsible for ensuring contractor compliance with the agreed EMP. In addition, project consultants will oversee compliance during periodic monitoring visits at construction sites.

90. The SNIF Secretariat with support from project consultants will update the construction site checklist, environmental design criteria, and EMP based on findings from project implementation and supervision. Updates will be provided to ADB for review and approval.

91. Costs related to subproject selection and categorization, and implementation of the environment guidelines (including progress reporting and monitoring) by the SNIF Secretariat will be included as part of counterpart financing for implementing agency staff, and consulting costs for program consultants. Cost related to the implementation the EMP will be borne by contractors.

VIII. GENDER AND SOCIAL DIMENSIONS

92. Although substantial progress is noted in the mainstreaming of gender aspects in the planning process for decentralization and de-concentration reform under DPSFM subprogram 1, considerable more effort is required to ensure implementation of reforms, and in particular policy formulation, is gender responsive. Female representations at legislative and executive institutions are increasing, but there is still a shortage of women at decision-making positions. Overall, quantitative quotas and targets are likely to be achieved, but the second stage of decentralization reforms will require a more strategic approach to the inclusion of gender targets, with a special focus on leadership positions and strategic capacity development activities.

93. The Gender Action Plan (GAP), developed in accordance with the ADB Policy on Gender and Development and the laws of the Royal Government of Cambodia, aims to address gender inequality and ensure more equal access to project benefits, in particularly promoting women's participation in local planning and implementation of the projects under a new initiative of Sub-national Investment Fund (SNIF). The Project has therefore been designed for categorization as an Effective Gender Mainstreaming (EGM) project under current ADB gender mainstreaming guidelines. The GAP has been developed and aims to ensure that: (i) gender is adequately addressed and mainstreamed into the SNIF operational plan; (ii) gender equity and women's empowerment issues will be incorporated in the SNIF investment projects; (iii) community women's participation in local planning; (iv) target SNA female officials for project facilitator team; and (v) sex-disaggregated data will be recorded through SNIF operations.

GENDER ACTION PLAN (GAP)

Project Outputs	Actions	Responsible Agencies
Output 3: Development of the SNIF	<ul style="list-style-type: none"> • Ensure that MoWA is included as a member of SNIF Board. • The SNIF Secretariat will define a Gender focal point. • Adequate gender inputs from gender experts will be allocated to the SNIF. • Gender is adequately addressed and mainstreamed into the SNIF Secretariat & District operations manuals. • Proper functioning of Women & Childrens' Development Committees will be one criterion for assessing District eligibility. • Gender equity and women's empowerment will be included as one criteria of technical review and appraisal of investment project proposals (IPPs) prepared by eligible Districts. • SNIF proposals will discuss (i) how women/girls will receive benefit from this investment; (ii) how community people in particularly women/girls can participate or access to this project. Encourage 	MEF, SNIF Secretariat, MoWA, NCDD-S gender advisor

	<p>community participation, and in particular women, throughout the process of SNIF proposal development including assessment, planning and shortlisting priority projects as specified in the planning guideline for investment program.</p> <ul style="list-style-type: none"> • District project facilitation team (PFT) will aim to include between 20–50% of women’s representatives. • Ensure female SNA including D/M officials and WCCC capacity building and mentoring support to empower them to participate in the SNIF process. • Ensure sufficient gender expertise (human resources and institutional experience) as a requirement of any consultants/services providers recruited for annual APA, IPP preparations, and the Annual Evaluation & Audit of completed sub-projects. • Ensure participatory evaluations are conducted with male and female beneficiaries at mid-term review and end of the project reviews, and gender result/impact will be included in the reports. • Ensure reporting on GAP progress is included in all review mission and project quarterly and annual progress reports. 	
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APA = annual performance assessments, MEF = Ministry of Economy and Finance, MoWA = Ministry of Women’s Affairs, SNIF = Sub-National Investment Fund.

Implementation Arrangements:

94. The Executive Agency (EA), SNIF Board with support from the SNIF Secretariat hosted at the MEF, will be responsible for the gender related policy/operational manual and implementation, monitoring and reporting of the Project gender action plan. SNIF Board will include representation of the Ministry of Women’s Affairs (MoWA) to provide guidance and ensure alignment with national gender policies/strategies and initiatives. NCDD-S gender advisor will be invited to participate to support gender mainstreaming in to the SNIF operational manual and SNIF projects, and in providing guidance to the annual APA and AEA teams. Gender indicators will be integrated in to the Project M&E framework and the Project will report sex-disaggregated data. The Project will submit progress update on the implementation of the GAP regularly as part of review and progress reports submitted to the ADB.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

95. The following is the overall program design and monitoring framework. The SNIF Secretariat will only be responsible for the operation of the SNIF including all investment activities funded by the Project.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>3. Clear service delivery responsibilities of subnational administrations defined.</p> <p>4. Efficient tax and non-tax revenue to subnational administrations assigned.</p> <p>5. Fiscal transfers that ensure comparable levels of service delivery across subnational administrations implemented.</p> <p>6. Capacity in support of efficient decentralized public financial management developed.</p>	<p>2e. NCDD-S fully staffed and obtaining \$1.0 million in national budgetary allocations by 2015 (2012 baseline: \$0.5 million)</p>	<p>2e. NCDD-S, MEF national budget</p>	
	<p>3a. Subdecree on permissive functions approved in 2014 (2012 baseline: not approved)</p>	<p>3a. NCDD-S, MOI, and priority line ministries reports</p>	
	<p>3b. Decentralization of solid waste collection to municipalities approved, implementation started in 2015 (2012 baseline, not approved)</p>	<p>3b. NCDD-S, MOI, and priority line ministries</p>	
	<p>3c. Pilot decentralization of rural water supply started (2012 baseline: not started)</p>	<p>3c. Line ministries reports, NCDD-S</p>	
	<p>4a. Non-tax revenues assigned to subnational administrations (2012 baseline: none)</p>	<p>4a. MEF, national budget, and NCDD-S</p>	
	<p>4b. Subdecree on own revenue sources for subnational administrations drafted (2012 baseline: not drafted)</p>	<p>4b. MEF and NCDD-S</p>	
	<p>5a. District and municipal fund allocation increased to 1% of national revenues (2013 baseline: 0.8%)</p>	<p>5a. National budget, and NCDD-S</p>	
	<p>5b. Conditional grants for delegated functions to subnational administrations designed by 2014 (2012 baseline: not designed)</p>	<p>5b. MEF annual reports, MRD</p>	
	<p>5c. SNIF subdecree approved with resources for implementation in 2016 (2012 baseline: not approved)</p>	<p>5c. MEF project implementation reports, SNIF subdecree and operations manual</p>	
	<p>5d. Gender adequately mainstreamed into the SNIF operational plan in 2016 (2012 baseline: not mainstreamed)</p>	<p>5d. Operations manual for participating districts</p>	
	<p>6a. Gender-responsive guidelines developed and dissemination started (2013 baseline: not drafted)</p>	<p>6a. MEF</p>	
	<p>6b. At least 50% of relevant subnational administration</p>	<p>6b. MEF, NCDD-S</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>7. Accountability mechanisms for subnational administrations to their constituencies designed and implemented.</p> <p>Project Output</p> <p>8. Sub-National Investment Fund established and operations started.</p>	<p>officials trained in financial management procedures by 2014 (2013 baseline: not started)</p> <p>7a. District charters adopted by 50% of district councils (2013 baseline: none).</p> <p>7b. Social accountability policy approved (2013 baseline: not approved)</p> <p>By 2021: 8a. 3 Batches projects for total 184 districts will be completed</p>	<p>7a. NCDD-S annual IP3 reports.</p> <p>7b. NCDD-S annual reports</p> <p>8a. MEF project implementation reports</p>	
<p>Key Activities with Milestones</p> <p>Policy milestones are included in the Policy Matrix in Appendix 4.</p> <p>Project Loan (Sub-National Investment Fund)</p> <ol style="list-style-type: none"> 1. First annual performance assessment completed (Q1 2017). 2. Capacity development of district administrations (Q1 2017). 3. Batch 1 project proposals evaluated for 75 districts (Q2 2017). 4. Batch 2 proposals evaluated for 42 districts (Q2 2018). 5. Batch 3 project proposals evaluated for 67 districts (Q2 2019). 			
<p>Inputs</p> <p>ADB: \$35 million Policy-based loan: \$15 million Project loan: \$20 million Government: \$10.7 million (SNIF contribution)</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable.</p>			

ADB = Asian Development Bank, HR = human resources, IP3 = 3 year implementation plan, MCS = Ministry of Civil Service, MEF = Ministry of Economy and Finance, MOI = Ministry of Interior, NCDD-S = National Committee for Sub-National Democratic Development at Subnational Level, NIS = National Institute of Statistics, NP-SNDD = National Program for Sub-National Democratic Development, SNAF = Sub-National Administration Finance Department, SNIF = Sub-National Investment Fund.
Source: Asian Development Bank.

B. Monitoring

96. Project performance monitoring: The EA will monitor the Project implementation to achieve target indicators in the DMF and will report to ADB quarterly. The ADB will carry out joint program review missions at least twice annually. The EA and ADB will continue to engage in actively policy dialogues throughout the Program implementation period. The EA/SNIF Secretariat will monitor the investment projects closely.

97. Compliance monitoring: The EA will monitor and ensure the compliance of loan assurances- policy, legal, financial, safeguards, and others. All non-compliance issues, if any, will be updated in quarterly progress reports, together with remedial actions. Each review mission by ADB will monitor the status of compliance with loan assurances and recommend measures to tackle non-compliance issues.

98. Safeguards monitoring: The implementing agency, with support from project consultants will provide semi-annual progress/monitoring reports to the executing agency and ADB identifying (i) results of subproject selection with reference to adherence to subproject selection criteria and C categorization for all safeguards, (ii) results of subproject construction site checklists, (iii) results of subproject environmental design criteria, (iv) and (v) implementation of EMPs in subprojects including contractor performance.

99. Gender and social dimensions monitoring: The SNIF Board as the executing agency will have the overall responsibility for ensuring the implementation of the GAP. Each gender action is aligned to a specific IP3 Sub-Program. The implementing agencies responsible for each Sub Program will be responsible for gender mainstreaming actions within their programs. The Policy Advisors appointed to support each Sub-Program at the national and SNA levels will support gender mainstreaming and implementation. Gender experts assigned to the NCDD-S will assist the NCDD-S Secretariat to coordinate with the EA to guide and monitor implementation.

C. Evaluation

100. An inception mission will be fielded soon after the Program is declared effective. At least 2 project review missions will be carried out annually. These will include: (i) performance of the EA/IA, consultants and contractors; and (ii) physical progress of subprojects which include effectiveness of safeguards and compliances. The SNIF Board and the SNIFS will closely monitor the investment projects to ensure quality and compliance with the terms of the contractual agreements within 6 months of physical completion of the Project, SNIF Secretariat will submit a project completion report to ADB.¹⁹

D. Reporting

101. The SNIFS will provide ADB with: (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the Project. To ensure projects continue to be both viable and sustainable, project accounts and the executing agency AFSs, together with the associated

¹⁹ Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

102. The Stakeholder Communication Strategy and Participation Plan for the Project is attached at Annex 8.

X. ANTICORRUPTION POLICY

103. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the Project.²⁰ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the Project.²¹

104. To support these efforts, relevant provisions are included in the financing agreement, project agreement and the bidding documents for the Program. In particular, all contracts financed by ADB under the Program will include provisions specifying the rights of ADB to audit and examine the records and accounts of the EA, IAs, and all contractors, suppliers, consultants, and other service providers as they relate to the Program. ADB will disseminate ADB's anticorruption policy to the EA and the IAs.

105. The Anti-Corruption Unit, operating under the Anti-Corruption Law (2010), has the power to investigate and irregularities in the Project. This includes financial irregularities and corruption by government officials.

106. Project specific measures to promote governance and prevent corruption, designed with the stages of project implementation and the disbursements chain in mind, include: (i) the requirements for the EA and IA to follow the government's SOPs for all expenses and revenue items including cash and financial management records; (ii) implementing the risk assessment and risk management plan in Annex 9.

XI. ACCOUNTABILITY MECHANISM

107. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.²²

²⁰ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

²¹ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

²² For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF PAM CHANGES

108. The draft PAM (June 2016) has been prepared and agreed upon at the loan negotiation. All revisions/updates during the course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.