



# Report and Recommendation of the President to the Board of Directors

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Project Number: 41392-023  
July 2016

## Proposed Policy-Based Loan and Project Loan for Subprogram 2 Kingdom of Cambodia: Decentralized Public Service and Financial Management Sector Development Program

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 21 July 2016)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.000243
\$1.00	=	KR4,099

## ABBREVIATIONS

ADB	–	Asian Development Bank
EARF	–	environmental assessment and review framework
GDP	–	gross domestic product
IP3	–	3-year implementation plan
MEF	–	Ministry of Economy and Finance
NCDD	–	National Committee for Sub-National Democratic Development
NCDD-S	–	National Committee for Sub-National Democratic Development Secretariat
PAM	–	project administration manual
PFM	–	public financial management
SNIF	–	Sub-National Investment Fund
TA	–	technical assistance

## NOTE

In this report, “\$” refers to US dollars.

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## PROGRAM AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 41392-023</b>	
<b>Project Name</b>	Decentralized Public Service and Financial Management Sector Development Program (Subprogram 2)	<b>Department /Division</b>	SERD/SEPF
<b>Country Borrower</b>	Cambodia Government of Cambodia	<b>Executing Agency</b>	National Committee for Democratic Development at Subnational Level
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ <b>Public sector management</b>	Decentralization		15.00
	Public expenditure and fiscal management		20.00
		<b>Total</b>	<b>35.00</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change Civil society participation Institutional development Institutional systems and political economy Organizational development Public financial governance	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	No	Nation-wide	High
<b>6. Risk Categorization:</b>	Low		
<b>7. Safeguard Categorization</b>	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>35.00</b>	
Sovereign SDP - Program loan: Asian Development Fund		15.00	
Sovereign SDP - Project loan: Asian Development Fund		20.00	
<b>Cofinancing</b>		<b>0.00</b>	
None		0.00	
<b>Counterpart</b>		<b>10.70</b>	
Government		10.70	
<b>Total</b>		<b>45.70</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan, and a proposed project loan, both to the Kingdom of Cambodia for subprogram 2 of the Decentralized Public Service and Financial Management Sector Development Program.

2. The program seeks to improve public service delivery in Cambodia by supporting the development of efficient and accountable subnational administrations.<sup>1</sup> The second subprogram of this programmatic approach comprises policy-based lending and project lending. The program will (i) support the development of the policy and regulatory framework for decentralization, and (i) provide funding to establish the Sub-National Investment Fund (SNIF) to provide eligible subnational administrations with financial resources for local investment projects.

## II. THE PROGRAM

### A. Rationale

3. **Development problem.** Despite an impressive record of economic growth, development in Cambodia is uneven, with large regional inequalities. Gross domestic product (GDP) grew by an average of over 6% between 2007 and 2015 while the poverty rate declined to 13.5% in 2014 from 47.8% in 2007.<sup>2</sup> However, national poverty averages mask large regional disparities. In 2009–2010 the poverty rate in Phnom Penh (4.3%) was less than one-sixth that of rural areas (27.5%),<sup>3</sup> while average poverty rates in the poorest seven provinces in the country were all well over 30%. About 91% of the poor live in rural areas, and the proportion is increasing. Moreover, more women join the labor market in rural areas, but they are mostly unpaid family workers. As a result, the multidimensional poverty index is five times higher in rural than in urban areas.<sup>4</sup> Further, sanitation can be accessed by just 37% of the population, and clean water sources by 44%, while access in urban areas is over 70%. These regional disparities limit inclusive growth and employment generating opportunities for the country as a whole, and restrain the government's efforts to meet its development goals and reduce poverty.

4. **Binding constraints.** The Government of Cambodia is aware of these large regional inequalities. Reforms aim to improve the management capacity of local administrations, and to involve citizens in the decision-making processes, enabling more efficient public service delivery which fits local needs and reduces these regional inequalities. However, the government faces a number of critical binding constraints, including inefficient service delivery, weak local revenue bases and fiscal management systems, and a lack of effective feedback mechanisms. These constraints are elaborated in paras 5–7.

5. **Inefficient service delivery systems across levels of administration.** Spending by subnational administrations in Cambodia represented only 7% of total government spending in 2014, with districts, municipalities, and communes (the focus of decentralization efforts)

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<sup>1</sup> ADB. 2012. *Report and Recommendations of the President to the Board of Directors on a Proposed Programmatic Approach, Policy-Based and Project Loan for Subprogram 1, and Technical Assistance Grant to the Kingdom of Cambodia: Decentralized Public Service and Financial Management Sector Development Program*. Manila (Loan 2886-CAM and Loan 2887-CAM).

<sup>2</sup> Ministry of Planning, General Directorate of Planning 2014. *Poverty Estimate in 2012 in Cambodia*. Phnom Penh.

<sup>3</sup> World Bank. 2013. *Where Have All the Poor Gone? Cambodia Poverty Assessment 2013*. Washington, DC.

<sup>4</sup> Oxford Poverty and Human Development Initiative. 2013. *Country Briefing: Cambodia. Multidimensional Poverty Index Data Bank*. University of Oxford. The index measures education, health, and standard of living.

accounting for 32% of the total. Cambodia's three tiers of subnational governments display a mixture of fiscal deconcentration and decentralization and as a result, the assignment of district and municipality-level functional expenditure responsibilities is not clear. This lessens public sector efficiency, and there is a limited capacity within subnational administrations to deliver basic services and realize economies of scale. More needs to be done to develop an overarching framework for decentralization, provide for a clear division of responsibility, and identify efficient service delivery mechanisms.

6. **Weak local revenue bases and financial management systems.** Currently, only 3.6% of national revenues are distributed to districts, municipalities, and communes through fiscal transfers. Further, subnational administrations in Cambodia which serve rural areas are estimated to generate only 60% of own-resource revenue. Recent progress under subprogram 1 is encouraging as an additional 2% of the national budget will be transferred to subnational administrations over 2017–2018 to support the decentralization of rural water supplies and solid waste collection. In addition, the government established the District and Municipal Fund. Nevertheless, the lack of tax and non-tax revenue assignments reduces the accountability of the subnational administrations. There is a continuing lack of funds for local investment projects and performance-based funding mechanisms have not been deployed. Deeper reforms will be required, beginning with the provision of additional fiscal transfers, tax, and non-tax revenue assignments to subnational administrations.

7. **Fledging local governance systems and social accountability mechanisms.** Clear statutes for subnational administrations are needed to clarify the rules and procedures applicable to local councils and their executives. In turn, these rules and procedures will enable their constituents to fulfill their responsibilities to monitor them. Currently, citizens do not have access to local plans and budgets, nor do they have the systems to monitor subnational administrations. Moreover, both subnational administrations and their constituents lack the technical capacity to utilize such a framework.

8. **Government reform agenda and past ADB interventions.** The government's reform framework is contained in the national program,<sup>5</sup> which is implemented through 3-year implementation plans (IP3s). Key legal aspects of the reform effort include: the 2008 Organic Law on Capital, Provinces, Municipalities, Districts, and Khans; and the 2011 Sub-national Finance Law. The country partnership strategy, 2014–2018 for Cambodia includes a focus on public sector management and identifies decentralization and deconcentration as core components.<sup>6</sup>

9. **Achievements under Subprogram 1.** Under subprogram 1, a \$1.5 million TA loan supported a number of initiatives, including the assignment of non-tax revenues to subnational administrations, the establishment of the SNIF, and the design and implementation of public financial management (PFM) systems for monitoring subnational administrations. Subprogram 1 also supported the pilot decentralization of rural water supply operations. Although much has been achieved, efforts to transfer fiscal revenue to subnational administrations were not successful. In response, subprogram 2 supported the establishment of the SNIF to promote fiscal transfer and provide capacity building to subnational administrations.

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<sup>5</sup> Government of Cambodia. 2009. *National Program for Sub-National Democratic Development (2009–2019)*. Phnom Penh.

<sup>6</sup> ADB. 2014. *Country Partnership Strategy: Cambodia, 2014–2018*. Manila.

10. **Lessons from ADB support for reform design and implementation.** A number of lessons have emerged from prior ADB engagements. First, both the Ministry of Interior and the Ministry of Economy and Finance (MEF) should be engaged as lead implementing agencies to facilitate inter-agency dialogue. In addition, targeted technical assistance needs to be provided to priority ministries, other than executing and implementing agencies, to support decentralization of service delivery. In addition, decentralization reforms must be coordinated with national public financial management reforms to ensure consistency between the national government and subnational administrations. Finally, capacity building is necessary to manage the large number of stakeholders involved in policy formulation and need for consensus.

11. **Sector development program approach and budget support.** Implementation of subprogram 1 demonstrated the benefits of combining a policy-based loan with a project loan, and subprogram 2 proposes to expand this approach.<sup>7</sup> This allows for adequate coordination and sequencing of reforms and the execution of strategic initiatives, such as the SNIF. Of the total \$35 million equivalent in planned financial support, the policy-based loan component (\$15 million equivalent) facilitates the articulation of a medium-term framework of policy reforms, which is at an early stage in Cambodia, and provides the government the flexibility to sequence the reforms. The project loan investment (\$20 million equivalent) will support a pilot subnational government investment grant scheme to fund 184 projects.

12. **Development partners' coordination.** ADB is the lead development partner in this sector, and co-chairs the development partners' working group on decentralization reforms. European and Japanese development partners are active in the areas of decentralization reform and subnational developments.

## **B. Impact and Outcome**

13. The impact will be improved access to and coverage of basic services across the country. The outcome will be an efficient system of intergovernmental fiscal relations that assists with service delivery by subnational administrations. The proposed subprogram includes a policy-based loan and a project loan. The policy-based loan includes 22 reform actions (14 triggers and 8 milestones),<sup>8</sup> which the Government completed from 2012 to 2016.<sup>9</sup> The project loan will provide assistance to the establishment and operations of the SNIF.

## **C. Outputs**

### **1. Policy-Based Loan Outputs**

14. The policy-based loan is structured around seven major outputs drawn from the government's IP3 for the national program (footnote 6) described in paras 15–21.

15. **A gender-sensitive policy and regulatory framework for decentralization developed and regularly updated.** The government has continued to provide a high-level framework to guide decentralization. A midterm review of the first IP3 (2011–2014) was

<sup>7</sup> In the concept paper, subprogram 2 was initially proposed as a policy-based loan, but changed due to the successful implementation of subprogram 1.

<sup>8</sup> The completion of policy triggers is a requirement for the loan. The policy mile stones, represent additional reforms implemented by the government.

<sup>9</sup> The policy matrix originally contained 39 reform actions, comprised of 17 triggers and 22 milestones. After confirming the completion of all 39 measures during fact-finding, the policy matrix was restructured to simplify the presentation.

conducted, including a gender audit, and the annual implementation reports were distributed to and widely discussed among stakeholders. The government subsequently reviewed and updated its implementation strategy for decentralization. Utilizing these lessons and feedback, a second IP3 (2015–2017) was approved that incorporates gender issues in the objectives, implementation approach, and monitoring and evaluation framework.

**16. Institutions for efficient coordination of subnational democratic development policies established.** The government strengthened the institutions that are leading the reform agenda. A full staff complement, 20% of who are women, has been provided to the National Committee for Sub-National Democratic Development (NCDD-S), and it has received a stable national budgetary allocation since 2012. Further, the government has strengthened the capacity of subnational administrations—close to 30% of advisors and staff in subnational administrations are women—to manage their personnel by approving permanent regulations for human resource management, giving them the ability to appoint, move and terminate civil servants working at subnational level.

**17. Clear service delivery responsibilities of subnational administrations defined.** The government has assigned districts and municipalities new responsibilities for service delivery. Functions eligible to be devolved to subnational administrations were identified through a government subdecree, which was approved in 2014, and pilot projects to decentralize the operation of health facilities and the operation and maintenance of district rural water supplies has begun. Additional proposals for the reassignment of functions—including for rural development, education, environment, and social affairs—have been completed, and the first full service decentralization (solid waste collection) is underway. Construction of 34 district offices in poor rural areas to assist with efficient service delivery is underway and will be completed in 2016.

**18. Efficient tax and non-tax revenue to subnational administrations assigned.** The government has made important progress in mobilizing revenue at the subnational level. A *prakas* (proclamation) was issued in December 2013 by the Non-Tax and State Property Department of the MEF, which defined administrative fees and charges for all subnational administrations. In addition, an MEF subdecree was drafted to provide for the assignment of tax revenue for districts and municipalities. The Government has submitted the draft subdecree to the General Secretariat of the PFM reform committee for approval.

**19. Fiscal transfers that ensure comparable levels of service delivery across subnational administrations implemented.** The government has provided an increased level of fiscal transfers to support decentralization. Since 2013, MEF has used a formula-based approach to allocate transfers to the provincial level, and has completed a review of financing modalities for provinces leading to the definition of multiannual budget programs. In addition, the government has gradually increased the budget allocation to the District and Municipal Fund from 0.8% of national revenues in 2015 to 0.9% in 2016, and 1% in 2017. The Prime Minister established the SNIF through the approval of a subdecree, and a budgetary allocation has been automatically appropriated in the 2016 budget. The SNIF, which provides a conditional grant earmarked for local infrastructure and investment projects, will be allocated to eligible districts using a formula-based approach. Finally, the government has designed a system of conditional grants to support the delegated delivery of water by subnational administrations, with implementation of the first pilot project scheduled for 2015.

**20. Capacity in support of efficient decentralized public financial management developed.** The government continues to develop a regulatory framework for the decentralized



financial management system. A standardized Sub-National Budget Classification and Chart of Accounts have been completed. Regulations have been issued to govern the procurement, budget formulation and implementation, payment and accounting systems of districts and municipalities. The capacity of the National Audit Authority to audit subnational administrations has been strengthened. Specific financial, compliance, and performance audit procedures applicable to subnational administrations have been developed. All auditors have been trained to use the new procedures and the number of provinces, municipalities, and communes audited in 2014 has increased significantly over 2013. Subnational administrations have been trained to use financial management systems, and efforts are underway to improve the capacity of the General Department Sub-national Administration to undertake financial management and monitoring.<sup>10</sup> These efforts include: (i) the review and prioritization of an inventory of PFM regulations governing subnational administration finance; (ii) provision of a PFM manual for subnational administrations; (iii) design and implementation of a financial database for subnational administrations; and (iv) defining the scope of capacity development activities of the General Department Sub-National Administration Finance.

**21. Accountability mechanisms for subnational administrations to their constituencies designed and implemented.** The government has implemented policies to increase the social and political accountability of local administrations to their constituents. Coaching and mentoring systems have been implemented, and technical manuals to guide subnational council meetings and public forums have been completed. Training and capacity development has been delivered to all districts covering 3,324 councilors, including 425 women. The district and municipal mentors responsible for the delivery of training activities, approximately 25% of which are women, were hired as part of the NCDD-S advisory and support staff for subnational administrations. The district charter template has been approved by the NCDD chair and implementation has begun in 10 districts. Finally, a social accountability framework for subnational administrations has been approved by the NCDD-S and will increase transparency and accountability between subnational administrations and their constituents.

## **2. Project Loan Output**

**22. Sub-National Investment Fund established and operations started.** The project loan will finance the SNIF which will be used to fund local investment projects. These projects will include civil works, goods for subnational administrations, equipment, and consultancy services for the SNIF Secretariat to be delivered between 2017 and 2021. Consultancy services will include: (i) capacity development for the SNIF Secretariat and subnational administrations; (ii) annual performance assessments of subnational administrations; (iii) annual evaluation and audit of investments; (iv) external audit of SNIF finances; and (v) technical backstopping support for the SNIF Secretariat. To participate in the program, subnational administrations will be subject to an annual performance assessment against a number of criteria including financial management and procurement capacity. Eligible subnational administrations will submit investment project proposals from a positive list of subsectors maintained by the SNIF Board. The SNIF Secretariat will evaluate the proposals and submit those which pass the pre-screen to the Board for evaluation and approval. The selection criteria against which investment projects are evaluated have been included in the project administration manual (PAM)<sup>11</sup> and the project loan agreement.

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<sup>10</sup> This training was conducted by the Departments of Procurement, Treasury, and Sub-national Administration Finance.

<sup>11</sup> Project Administration Manual (accessible from the list of linked documents in Appendix 2).

## D. Development Financing Needs

**Table 1: Financing Plan**  
(\$ million)

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (policy-based loan)	15.00	32.82
Asian Development Bank (project loan)	20.00	43.76
Government of Cambodia	10.70	23.42
<b>Total</b>	<b>45.70</b>	<b>100.0</b>

<sup>a</sup> Bank charges related to the imprest account may be financed from the loan proceed.  
Source: Asian Development Bank estimates.

23. The program is estimated to cost \$45.7 million. The government has requested a loan in various currencies equivalent to SDR25,034,000 (\$35 million equivalent) from ADB's Special Funds resources to help finance subprogram 2 (table 1). The loan size is based on the government's financing needs, the strength of the policy reform package, and its development impact. The benefits arise from improved state allocative efficiency decentralization of service delivery), higher revenue collection, and strengthened local governance. Cambodia's gross financing needs remain high. With a projected budget deficit of 4.6% of GDP for 2016, the government will need to borrow KR3,313 billion (approximately \$820 million).

24. **Policy-based loan financing plan.** The government has requested a loan in various currencies equivalent to SDR10,729,000 (\$15 million equivalent) from ADB's Special Funds resources to help finance subprogram 2. The policy-based loan will have a 24-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 as set forth in the draft program loan agreement.<sup>12</sup> The policy-based loan will be withdrawn in a single tranche upon loan effectiveness.

**Table 2: Project Investment Plan**  
(\$ million)

Item	Amount <sup>a</sup>
<b>A. Base Cost<sup>b</sup></b>	
1. SNIF Investment Fund	23.90
2. SNIF Secretariat Support	4.89
<b>Subtotal (A)</b>	<b>28.79</b>
<b>B. Contingencies<sup>c</sup></b>	1.52
<b>C. Financing Charges During Implementation<sup>d</sup></b>	0.39
<b>Total (A+B+C)</b>	<b>30.70</b>

<sup>a</sup> Includes taxes and duties of \$2.74 million to be financed from the government resources and Asian Development Bank (ADB) loan resources for each related expenditures.

<sup>b</sup> In mid-2015 prices.

<sup>c</sup> Physical contingencies computed at 3% for civil works; and 5% for field research and development, training, surveys, and studies. Price contingencies computed at average 1.48% on foreign exchange costs and 3.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>d</sup> Includes interest. Interest during construction for ADB loan(s) has been computed at 1% per annum during the 9-year implementation period.

Source: Asian Development Bank estimates.

25. **Project loan investment plan.** The government has requested a loan of SDR14,305,000 (\$20 million equivalent) from ADB's Special Funds resources to help finance

<sup>12</sup> The proceeds of the policy-based loan will be disbursed in accordance with provisions set out in ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

the project, including taxes and duties (Table 2).<sup>13</sup> The loan will have a 32-year term, including a grace period of 8 years, an interest rate of 1% per annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft project loan agreement. Interest during construction will be financed by the loan.

## E. Implementation Arrangements

26. The NCDD-S is the executing agency for the policy-based program. The MEF will be the executing agency for the project loan. Program monitoring will be led by the NCDD, with assistance from the technical working group for decentralization reforms. The SNIF Secretariat, hosted at the MEF, will be responsible for the implementation of the project loan, with oversight provided by the SNIF Board. Additional financing may be considered for the project loan if the project performs well. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 11).

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Implementation period	January 2013–December 2021		
Estimated completion date	June 2016 for policy-based loan; December 2021 for project loan		
Loan closing dates	Policy-based loan (June 2017); Project loan (June 2022)		
Management			
(ii) Executing agency	National Committee for Sub-National Democratic Development Secretariat (for policy-based loan); SNIF secretariat (for project loan)		
(iii) Key implementing agencies	MEF, MOI, MCS, for policy-based loan; MEF through SNIF secretariat for project loan		
(iv) Implementation unit	MEF–SNIF Secretariat, 2 MEF, 7 contractual staff plus part-time technical input.		
Procurement	NCB and Shopping (civil works)	190 contracts	\$17.2 million
	Shopping (vehicle, equipment, furniture)	4 contracts	\$0.11 million
Consulting services	LCS	4 contracts	\$0.50 million
	ICS	5 contracts	\$0.46 million
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2015, as amended from time to time) and detailed arrangements agreed upon between the government and ADB. The proceeds of the policy-based loan will be disbursed in accordance with ADB's <i>Simplification of Disbursement Procedures and Related Requirements for Program Loans</i> , 1998.		

ADB = Asian Development Bank, ICS = individual consultants selection, LCS = least-cost selection, MCS = Ministry of Civil Service, MEF = Ministry of Economy and Finance, MOI = Ministry of Interior, NCB = national competitive bidding, SNIF = Sub-National Investment Fund.

Source: Asian Development Bank estimates.

## III. DUE DILIGENCE

### A. Economic and Financial

27. The program impact assessment estimates that the reform program adds approximately \$170 million to GDP (equivalent to 1.2% in 2012). The benefits arise from improved state allocative efficiency (decentralization of service delivery) and improved revenue collection. The

<sup>13</sup> Inclusion of taxes and duties on ADB-financed project expenditures is consistent with the country partnership strategy (footnote 6, above). Financing of taxes and duties does not represent an excessive share of the project cost and is material and relevant to the success of the project.

costs of the reform program, including the fiscal costs of implementing reforms and related administrative costs total \$65 million. Thus, the program will provide a net benefit to the economy of \$105 million.<sup>14</sup> The sample projects under the SNIF are expected to generate economic internal rates of return of around 13%, equivalent to earlier small-scale infrastructure initiatives supported by ADB and other development partners.<sup>15</sup> Selected projects under the SNIF that focus on infrastructure and investment initiatives are expected to offer substantial higher rates of economic return. To ensure its financial sustainability, the government will commit an annual budget allocation to the SNIF based on the national budget adopted in the previous year, and defined as a percentage of recurrent revenue. The applied percentages are 0.02% for 2016, 0.04% for 2017, and increasing to 0.07% in 2020. The expected budget allocation will cover recurrent costs and provide an increasing contribution to the SNIF. On this basis, implementation of the project is deemed financially sustainable.

## **B. Governance**

28. Efforts to reform public financial management have produced demonstrated results. A new budget classification system and chart of accounts have been implemented, and financial management information systems at the MEF and provincial treasuries have been strengthened.<sup>16</sup> To improve transparency and accountability, reforms have been initiated to focus on: program budgeting; linking budgets to sector policies, outputs, and outcomes; and, establishing ministries as budget entities –granting further discretion over their resources and thus facilitating decentralization. While improvements in Cambodia’s procurement system are noted, domestically financed procurement through noncompetitive and informal procedures remains common. Implementing regulations for the Public Procurement Law are being finalized and the government has undertaken procurement capacity development for subnational administrations. ADB’s Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and the NCDD-S and the MEF. The specific policy requirements and supplementary measures are described in the PAM.

## **C. Poverty and Social**

29. Subnational democratic development through decentralization is expected to assist poverty reduction in Cambodia. As more public services are delegated to local communities, constituents will benefit from a more efficient matching of local preferences and expenditure decisions. These arrangements will create more business opportunities for local suppliers to expand their businesses, providing positive impacts on the local economy and reducing poverty. Stakeholders will also benefit from the increased social accountability which arises from participatory planning and budgeting by subnational administrations.

30. **Gender and subnational democratic development.** Subprogram 2 is categorized as *effective gender mainstreaming* under current ADB gender mainstreaming guidelines. The program mainstreams gender in strategic plans and supports the development of regulations that apply quotas and targets for female employment in civil service. The decentralization of priority services such as health and rural water supply is accompanied by the adoption of targets for training local female counselors and local civil service, as well as the recruitment of female coaches and provincial advisers. Finally, the gender action plan aims to ensure that:

<sup>14</sup> See revised Program Impact Assessment (accessible from the list of linked documents in Appendix 2).

<sup>15</sup> Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

<sup>16</sup> External Advisory Panel. 2015. *Public Financial Management Reform Program—Final External Advisory Panel Report*. Phnom Penh.

(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) participation in local planning by women from affected communities is ensured; (iv) female officials from subnational administrations are appointed to the project facilitator team; and, (v) sex-disaggregated data is recorded through SNIF operations.<sup>17</sup>

#### **D. Safeguards**

31. Safeguards due diligence and a review of the policy matrix indicate that policy actions will have manageable impacts on the environment, and no impacts on involuntary resettlement, and indigenous peoples. Nevertheless, the project has adopted clear screening criteria to proactively identify and prevent risks arising from involuntary resettlement and negative impacts on indigenous peoples in accordance with ADB's Safeguard Policy Statement (2009). Further, the project design ensures that there will be adequate capacity in the SNIF Secretariat to screen the projects. The project is classified category B for the environment and C for social safeguards. There will be no land acquisition associated with implementation of projects under the SNIF, as local investment project works are restricted to existing government land that will have clear titles and be free of encumbrances. These lands will not be occupied or productively used by legal or non-titled occupants. A monitoring and grievance redress mechanism will mediate any unexpected impacts.

32. The SNIF Secretariat will review proposed local investment projects to ensure they observe safeguard categorization. Review and field visits will confirm that environmental implications are limited. An environmental assessment and review framework (EARF) has been attached to the PAM and establishes rules, procedures, and institutional arrangements to be undertaken to identify, monitor, and mitigate adverse environmental impacts due to small civil works activities –the expected value of each project will not exceed \$100,000. The EARF establishes procedures for all local investment projects financed by the SNIF in accordance with ADB's Safeguard Policy Statement and the government's legislation on environmental management. These procedures will guide project selection, screening and categorization, environmental assessment, and preparation and implementation of environmental management plans (EMPs) of selected projects. The guidelines under the EARF include a construction site checklist, environmental design criteria, and standardized environmental management plans. The guidelines will be implemented by the district administrations and supported by the SNIF Secretariat. Relevant documents will be disclosed on ADB's website. The SNIF Secretariat will build the capacity of participating districts to assist with the identification and submission of the first batch of projects. The SNIF Secretariat safeguards specialist will support capacity development for districts, and will provide backstopping to districts as they prepare their plans. At the district level, the district engineer will be the focus of the capacity building efforts on environmental assessment.

#### **E. Risks and Mitigating Measures**

33. Major risks include resistance to the devolution of functions by the national government. Functional assignments may translated into unfunded mandates through a lack of progress in establishing subnational own sources of revenue, delays in developing the ability of subnational administrations to assume newly assigned functions, and procurement and corruption risks.<sup>18</sup>

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<sup>17</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2).

<sup>18</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

The program will address these risks through the establishment and implementation of the SNIF, which will provide subnational administrations with investment funds for local priorities. The use of TA resources will ensure districts and municipalities have access to tax revenues, and will ensure provincial resource centers provide demand-driven, hands-on mentoring to districts and communes. Proper fiduciary arrangements including procurement, a review committee, and investment audit are in place. Overall, unmitigated risk is considered medium to high but given the mitigation measures, the integrated benefits and impacts are expected to outweigh the costs.

#### **IV. ASSURANCES AND CONDITIONS**

34. The government and the NCDD-S have assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government and NCDD-S have agreed with ADB on certain covenants for the project, which are set forth in the project loan agreement. The government has agreed that the policy-based loan will not be declared effective until the government, through NCDD-S, has fulfilled all conditions for subprogram 2 policy-based loan as set out in the policy matrix in Appendix 4.

35. No withdrawals will be made from the project loan account until all SNIF contractual staff positions to be funded by the government and listed in Annex 1 of the PAM have been filled by qualified professionals through competitive selection process in accordance with the terms of reference and qualification requirements provided in the said Annex 1 to the PAM.

#### **V. RECOMMENDATION**

36. I am satisfied that the proposed policy-based loan and project loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the policy-based loan in various currencies equivalent to SDR10,729,000 to the Kingdom of Cambodia for subprogram 2 of the Decentralized Public Service and Financial Management Sector Development Program, from ADB's Special Funds resources with interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft program loan agreement presented to the Board; and
- (ii) the project loan in various currencies equivalent to SDR14,305,000 to the Kingdom of Cambodia for the Decentralized Public Service and Financial Management Sector Development Program, from ADB's Special Funds resources with interest charge at the rate of 1% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft project loan agreement presented to the Board.

Takehiko Nakao  
President

28 July 2016

## DESIGN AND MONITORING FRAMEWORK

<b>Impact the Program is Aligned with:</b>			
Access to and coverage of basic services across the country improved. (National Program for Sub-National Democratic Development 2010–2019)			
<b>Results Chain</b>	<b>Performance Indicators with Targets and Baselines</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks</b>
<p><b>Outcome</b></p> <p>An efficient system of intergovernmental fiscal relations that assists service delivery by subnational administrations</p>	<p>By 2023:</p> <p>a. Provincial, district and municipal spending increases to 10.0% of total public expenditure (2008 baseline: 5.5%)</p> <p>b. Non-tax revenue collection by subnational administrations increases to 5.0% of general nontax revenues (2008 baseline: 2.7% )</p>	<p>a. MEF budget and financial reports. Review of completed policy actions</p> <p>b. MEF budget and financial reports. Review of completed policy actions</p>	<p>Lack of sustained government financial and institutional support for reforms</p> <p>Resistance to the devolution of functions by the national government</p> <p>Insufficient national government capacity to oversee sub-national administration responsibilities</p>
<p><b>Program Outputs</b></p> <p>1. A gender-sensitive policy and regulatory framework for decentralization developed and regularly updated.</p> <p>2. Institutions for efficient coordination of subnational democratic development policies established.</p>	<p>Completed by July 2016:</p> <p>1a. IP3 (2015-2017) for the NP-SNDD (2010–2019) approved in 2014 (2013 baseline: not approved)</p> <p>1b. Gender-mainstreamed IP3 2011–2013 approved in 2010 and 2014–2016 approved in 2013 (2013 baseline: not approved)</p> <p>2a. Policy and Program Management Department established and all positions appointed with high-quality professionals by 2013. Gender expert appointed at NCDD-S (2013 baseline: not appointed)</p> <p>2b. New gender-sensitive civil service code prepared by 2014, granting human resources policy authority to subnational administrations (2013 baseline: not available)</p> <p>2c. Quota of 20%–50% women among new recruits for civil service positions newly established (2013 baseline: 0)</p> <p>2d. Target of 30% women amongst new recruits for national and subnational administration advisers. (2012 baseline: not established)</p>	<p>1a–2a. NCDD-S</p> <p>2.b NCDD-S and MCS</p> <p>2c. MCS annual reports, NCDD-S</p> <p>2d. MOI project reports, NCDD-S</p>	<p>Functional assignment translated into unfunded mandates slow progress on assignment of own sources of revenue to sub-national administrations</p> <p>Delays in developing the ability of sub-national administrations to assume newly assigned functions</p> <p>Slow implementation of accountability mechanisms at the sub-national administration level</p> <p>Inexperienced procurement review committees at the district level</p> <p>Possible misuse of project funds</p> <p>An incomplete regulatory framework and lack of implementation of regulations on sub-national administration public financial management systems</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Clear service delivery responsibilities of subnational administrations defined.	<p>2e. NCDD-S fully staffed and obtaining \$1.0 million in national budgetary allocations by 2015 (2012 baseline: \$0.5 million)</p> <p>3a. Subdecree on permissive functions approved in 2014 (2012 baseline: not approved)</p> <p>3b. Decentralization of solid waste collection to municipalities approved, implementation started in 2015 (2012 baseline, not approved)</p> <p>3c. Pilot decentralization of rural water supply started (2012 baseline: not started)</p>	<p>2e. NCDD-S, MEF national budget</p> <p>3a. NCDD-S, MOI, and priority line ministries reports</p> <p>3b. NCDD-S, MOI, and priority line ministries</p> <p>3c. Line ministries reports, NCDD-S</p>	
4. Efficient tax and non-tax revenue to subnational administrations assigned.	<p>4a. Non-tax revenues assigned to subnational administrations (2012 baseline: none)</p> <p>4b. Subdecree on own revenue sources for subnational administrations drafted (2012 baseline: not drafted)</p>	<p>4a. MEF, national budget, and NCDD-S</p> <p>4b. MEF and NCDD-S</p>	
5. Fiscal transfers that ensure comparable levels of service delivery across subnational administrations implemented.	<p>5a. District and municipal fund allocation increased to 1% of national revenues (2013 baseline: 0.8%)</p> <p>5b. Conditional grants for delegated functions to subnational administrations designed by 2014 (2012 baseline: not designed)</p> <p>5c. SNIF subdecree approved with resources for implementation in 2016 (2012 baseline: not approved)</p> <p>5d. Gender adequately mainstreamed into the SNIF operational plan in 2016 (2012 baseline: not mainstreamed)</p>	<p>5a. National budget, and NCDD-S</p> <p>5b. MEF annual reports, MRD</p> <p>5c. MEF project implementation reports, SNIF subdecree and operations manual</p> <p>5d. Operations manual for participating districts</p>	
6. Capacity in support of efficient decentralized public financial management developed.	<p>6a. Gender-responsive guidelines developed and dissemination started (2013 baseline: not drafted)</p> <p>6b. At least 50% of relevant subnational administration officials trained in financial management procedures by</p>	<p>6a. MEF</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><b>Project Output</b> 8. Sub-National Investment Fund established and operations started.</p>	<p>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><b>Key Activities with Milestones</b></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"> <li>1. First annual performance assessment completed (Q1 2017).</li> <li>2. Capacity development of district administrations (Q1 2017).</li> <li>3. Batch 1 project proposals evaluated for 75 districts (Q2 2017).</li> <li>4. Batch 2 proposals evaluated for 42 districts (Q2 2018).</li> <li>5. Batch 3 project proposals evaluated for 67 districts (Q2 2019).</li> </ol>			
<p><b>Inputs</b></p> <p>ADB: \$35 million Policy-based loan: \$15 million Project loan: \$20 million Government: \$10.7 million (SNIF contribution)</p>			
<p><b>Assumptions for Partner Financing</b></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.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=41392-023-3>

1. Project Agreement
2. Program Agreement
3. Sector Assessment (Summary): Public Sector Management
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. International Monetary Fund Assessment Letter
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Risk Assessment and Risk Management Plan
13. List of Ineligible Items

### **Supplementary Documents**

14. Program Impact Assessment
15. Public Financial Management Assessment



ព្រះរាជាណាចក្រកម្ពុជា  
MINISTRY OF ECONOMY AND FINANCE

N° 5460 MEF/.....

ព្រះរាជាណាចក្រកម្ពុជា  
ព្រះមហាក្សត្រ  
KINGDOM OF CAMBODIA  
Nation Religion King

Phnom Penh, // July 2016

## DEVELOPMENT POLICY LETTER

Mr. Takehiko Nakao  
President  
Asian Development Bank  
No. 6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines

**Subject: DEVELOPMENT POLICY LETTER AND POLICY MATRIX**  
**Decentralized Public Service and Financial Management Program, Subprogram 2**

Your Excellency,

On behalf of the Royal Government of Cambodia, allow me to thank you for the sustained commitment and support of the Asian Development Bank (ADB) towards our overall reform efforts and our national development agenda.

This letter supplements the Letter of Development Policy that was attached to the Report and Recommendations to the President for Subprogram 1 of the DPSFM, approved by the Board in September 2012. This supplementary letter emphasizes the Royal Government of Cambodia's commitment to Sub-National Democratic Development reforms and its specific goals: (i) creating a culture of local participatory democracy, accountable to the citizens; (ii) improving public services and infrastructure; (iii) bringing about social and economic development; and (iv) contributing to poverty reduction.

Under the second subprogram of the DPSFM, and as outlined in the program's policy matrix, the Royal Government of Cambodia has undertaken major reforms. These reforms are drawn from the National Program for Sub-National Democratic Development 2010–2019 (NP-SNDD) and its associated 3-Year Implementation plans (IP3-I 2011–2014 and IP3-II 2015–2017). In order to support this reform agenda, we would like to request financial assistance from the ADB through the Decentralized Public Service and Financial Management Program. This loan includes a SDR 10,729,000 (\$15,000,000) policy-based loan that will allow the government to sustain and deepen sub-national democratic development reforms, and a SDR 14,305,000 (\$20,000,000) project loan to initiate the operations under the Sub-National Investment Fund.

### ***Progress in Sub-National Democratic Development Reforms***

Despite high and sustained economic growth, the Royal Government is concerned that local development in Cambodia continues to be uneven, and regional inequalities are large. Despite improving, additional efforts are required to grant access to water and sanitation by the rural population, and to reduce disparities in health indicators.

To address these challenges, the Government is re-doubling efforts in support of efficient public service delivery, and in particular involving citizens in decision making processes as a way to improve the management of local administrations. The Government looks at sub-national administrations (SNAs) to deliver on these goals, and commits to sustaining reform efforts leading to improved efficiency of service delivery systems, strengthened local revenue bases and financial management systems, and enhanced local governance systems. The Government reform efforts are contained in the National Program for Sub-National Democratic Development.

As stated in the IP3-II 2015–2017, under the first phase of the NP-SNDD, 2011–2014, the regulatory framework for sub-national democratic development was mostly completed and reformed administrative structures and systems have been established and are functioning at all levels of the sub-national administration. Important preparatory work was carried out by several Ministries to map out and review the various functions under their mandates in advance of assigning functions to SNAs. The District/Municipal Fund was established and became operational, the Commune/Sangkat Fund continued implementation across the country. A Royal Decree on Separate Statute for SNA Personnel was adopted and will enable SNAs to effectively manage their own staff. Finally, a three-year plan for Implementation of the Social Accountability Framework (ISAF), 2015–2017, was designed, field tested and ready to be rolled out. The DPSFM benefited from ADB's specialized technical assistance for most of the reforms outlined and several other important milestones.

### **Completing the framework for Sub-National Democratic Development**

Substantial progress has been achieved in the implementation of reforms. A gender sensitive policy and regulatory framework for decentralization is being completed with the approval of the second 3-year implementation plan (IP32015–2017) for reforms. The new plan is the result of ample consultation among all reform stakeholders, and incorporates expert national and international technical assistance and the results from rigorous evaluations of the first years of implementation of reforms.

We have continued to strengthen the institutions leading reforms. The NCDD-S is adequately staffed, with current vacancies generally not affecting key personnel positions, and has received a stable national budgetary allocation since 2012. Importantly, the government has assigned SNAs the capacity to manage their own personnel by approving permanent regulations for human resources management by SNAs, in particular with the approval of a Sub-decree on the Delegation of Power to SNAs to Appoint, Move and Terminate Civil Servants Working at Sub-National Level in November 2013.

The Government is assigning Districts and Municipalities responsibilities for service delivery. Four Ministries have completed their proposals for the reassignment of functions, including rural development, education, environment and social affairs. Decentralization of the solid waste collection services was completed in 2015, and pilot decentralization of Health Facilities Operations and Rural Water Supply operations and maintenance by Districts has started. Under the DPSFM, construction of 34 district offices in poor rural areas is near completion, and will allow for adequate facilities for the districts to coordinate service delivery.

A key pillar of our strategic approach for decentralization is that "finance follows function". As a result, the government has made important progress towards expanding the revenue bases of SNAs, in particular Districts and Municipalities. This has included the issuance of regulations defining administrative fees and charges for all SNAs. And although non-tax revenues are an important source of revenue for SNAs, the government is going beyond that and evaluating sharing of tax revenue sources to districts and administrations. Specifically, the MEF has drafted a Sub-decree that provides for sharing of Tax Revenue sources for Districts and Municipalities, currently undergoing technical discussions.

The government is mindful that, as revenue bases are unequally distributed across the country, there is a need to equalize the resources available to districts and municipalities with national government transfers. Upon the establishment of the District and Municipal Fund in 2012, the government has now committed to increase its allocation from the current 0.8% of national revenues to 0.9% in 2016 and 1% from 2017 onwards. In addition, the Sub-National Investment Fund (SNIF) has been established, with the approval of its sub-decree by the Prime Minister and a budgetary allocation automatically appropriated in the 2016 budget. The SNIF is also a conditional performance-based grant earmarked for local infrastructure and investment projects that will be allocated to eligible districts by a formula-based approach. The SNIF has great potential to serve as a channel for development partners local investment initiatives, and will also develop the first annual performance assessment mechanism for District and Municipalities in Cambodia.

Our reform program is also guided by the principle that efficient decentralization reforms require a strong monitoring capacity for the central government over SNA finances. Led by the efforts on the implementation of the public financial management reform program (PFMRP), the government has developed the regulatory framework for the decentralized system of financial management. Financial management oversight is also assisted with the strengthening of the National Audit Authority (NAA) to audit SNAs. Lastly, mindful that system development needs to be coupled with sufficient capacity development of our civil service, substantial efforts have been made, and will continue to be made in training and capacity development of personnel at all levels of administration on these new regulations.

A critical feature of the DPSFM is that it places adequate importance to the design and implementation of accountability mechanisms for SNAs to their constituencies. In the absence of these mechanisms, we will not be able to ascertain whether the reforms are improving the lives of those in rural areas, bridging the gaps in service delivery who have observed. Social and political accountability channels are essential for people to convey their preferences and assessment on the mix of public services delivered to them to their elected representatives. In this area, the government has implemented coaching and mentoring systems for district and municipal councils. A total of 3324 councilors were trained in these systems, include 425 women. Most importantly, the NCDD-S has approved a Social Accountability Framework (SAF) for SNAs, and its implementation plan, which outlines the full system of social accountability reforms at the sub-national level. Finally, all districts have adopted in 2016 their charters, defining open and transparent internal operating procedures.

### **The Sub-National Investment Fund**

Prominent among the policy reforms under the DPSFM is the establishment of the SNIF. We are convinced that the SNIF will become a key piece of the system of intergovernmental fiscal relations in Cambodia. It will grant financial resources to eligible SNAs for the implementation of local investment projects, thus allowing resources from other revenue sources to be used for recurrent expenditure. The SNIF is designed to have a demonstrative effect in the implementation of transparent and accountable practices, and has the potential to reduce importantly transaction costs for development partners by offering a mechanism to channel available resources for local investment projects. The SNIF will implement the first annual performance assessment system for Districts and Municipalities, and will help develop clearly needed capacities for project identification, procurement and financial management.

### **Future Developments**

Sub-national democratic development reforms require a long-term commitment from both the Government and all other stakeholders, in particular development partners, but also civil society, private sector and academia among others. A decentralized system of administration

is always evolving and adapting, incorporating new and more sophisticated features once the basic pillars are in place.

The DPSFM has assisted the development and implementation of the institutional and regulatory framework for sub-national democratic development outlined in the National Program. It has also assisted the implementation of a number of initiatives in functional and revenue assignments, local public financial management systems and social accountability. Policy dialogue articulate under the DPSFM has been exceedingly fruitful, and has been coupled with ADB's leading role as co-chair of the development partners working group on decentralization and de-concentration.


Looking forward, sustained ADB support to reforms will be required to facilitate implementation of the many policy reforms developed under the DPSFM. As outlines in the governments IP3-II 2015–2017, upcoming priorities emphasize: (i) the need to advance in the decentralization of service delivery responsibilities; (ii) the need to expand sub-national revenue bases to allow for improved revenue collection and accountability of local administrations to their constituencies; and (iii) address substantial challenges in the capacity development of SNAs, in particular at the district and municipal level.

I am glad to note that the building blocks of a new programmatic approach from the ADB are currently being discussed with our government, focusing precisely in the set of priorities identified in our strategic reform plan. In addition, the DPSFM's post-program partnership framework will serve to guide policy dialogue among ADB and the government.

### Conclusion

In closing, Mr. President, the Government reiterates its commitment to the full implementation of the NP-SNDD and to our vision of "democratic decentralization" in Cambodia, anchored in good local governance and good and inclusive local development. We will continue to work with ADB and other development partners in the implementation of the policy framework outlined in the DPSFM and on the implementation of the Sub-National Investment Fund. We are confident that our reform efforts will assist balanced regional development through efficient service delivery by strong local administrations.

We deeply appreciate ADB's leading role in support to sub-national democratic development reforms over the long term. To assist continuation of recent, successful efforts, we look forward to ADB's early consideration and approval of the Decentralized Public Service and Financial Management policy-based loan and the project loan under subprogram 2.

Sincerely Yours, 



H.E. Dr. Aun Pornmoniroth  
Senior Minister  
Minister of Economy and Finance

## POLICY MATRIX

Objectives and Policy Actions	Subprogram 1 (Phase 1) Summary of Actions Accomplished Under Subprogram 1 (2010–2012)	Subprogram 2 (Phase 2) Milestones for Subprogram 2 (2012–2016)	Post-Program Partnership Framework
<b>A. Strengthening the institutional framework for the implementation and coordination of subnational democratic development (SNDD) reforms</b>			
<b>1. Development and regular update of a gender-sensitive policy and regulatory framework for decentralization</b>	<b>1.1 Policy Design and Implementation Strategy for SNDD reforms developed</b> <ul style="list-style-type: none"> <li>1.1.1 National Program for Sub-national Democratic Development (2010–2019) approved</li> <li>1.1.2 Three Year Implementation Plan (2011–2013) approved by the NCDD-S</li> <li>1.1.3 Gender concerns mainstreamed in the IP3 and gender experts appointed at the NCDD-S</li> </ul>	<p>The government has provided for continuity of reforms by reviewing and updating the implementation strategy for SNDD reforms. Accomplishments include:</p> <ol style="list-style-type: none"> <li>1. <b>Based on the results of the midterm review, and annual implementation reports (including gender assessments) of the first IP3, a second 3-year implementation plan (2015–2017) for reforms has been approved and has mainstreamed gender issues.</b></li> </ol>	<p>A gender-responsive policy framework is created that guides the long-term vision of subnational democratic reforms, anchored on regular consultative mechanisms.</p>
<b>2. Establishment of institutions for efficient coordination of subnational democratic development policies</b>	<b>2.1 NCDD-S organizational structure approved, with a clear mandate established, and with capacity for the generation of policy proposal.</b> <ul style="list-style-type: none"> <li>2.1.1 Policy Analysis and Development Division established and all positions appointed with high-quality professionals</li> <li>2.2 Subcommittees of the NCDD fully appointed and having held meetings as required (Documentation pending)</li> <li>2.2 Draft strategy for gender-responsive human resources management at the subnational level prepared by the state secretariat for the civil service (Documentation Pending)</li> </ul>	<p>The government continues to strengthen the institutions leading SNDD reforms and has assigned subnational administrations the capacity to manage their own personnel. Accomplishments include:</p> <ol style="list-style-type: none"> <li>2. <b>NCDD-S is adequately staffed, with female staff representing approximately 20% of the total, and has received a stable national budgetary allocation for its operating expenditures (approximately 30% of SNA advisors and staff are women).</b></li> <li>3. <b>Permanent regulations covering human resources management by subnational administrations have been completed, including a Draft Royal Decree covering subnational administration personnel and a final Sub-decree on the Delegation of Power to Sub-National Administrations to Appoint, Move and Terminate Civil Servants Working at the subnational level.</b></li> <li>4. Approved and draft regulations governing the management of SNA personnel incorporate recruitment quotas which target the proportion of women in newly recruited civil servants at 20%–50%.</li> </ol>	<p>Strong institutions are established to design and implement reforms, including a more strategic approach to the inclusion of gender targets that are fully financed by recurrent resources.</p> <p>Human resources management systems are developed that endow subnational administrations with authority over the selection, promotion, and firing of their associated civil servants</p>

Objectives and Policy Actions	Subprogram 1 (Phase 1) Summary of Actions Accomplished Under Subprogram 1 (2010–2012)	Subprogram 2 (Phase 2) Milestones for Subprogram 2 (2012–2016)	Post-Program Partnership Framework
<b>B. Assigning clear responsibilities for service delivery to the subnational levels of administration</b>			
<b>3. Definition of clear service delivery responsibilities of subnational administrations</b>	<p><b>3.1 Develop and implement the legal framework for the assignment of clear functional responsibilities to subnational administrations</b></p> <p>3.1.1 Subdecree on strategy for functional assignments to subnational administrations approved</p> <p>3.1.2 Manuals for functional mapping and reviews developed by the NCDD, which integrate gender mainstreaming needs</p> <p>3.1.3 Subcommittee on functional assignments and resources active and holding meetings as required</p> <p>3.1.4 Functional mapping process at priority ministries started</p>	<p>To improve service delivery, the Government assigned responsibilities for service delivery to subnational administrations, and in particular districts and municipalities. Accomplishments include:</p> <p><b>5. Under a government subdecree, four ministries have completed their proposals for the reassignment of functions to Districts and Municipalities (rural development, education, environment and social affairs) and an additional two have completed their mapping functions (Health and Agriculture).</b></p> <p><b>6. The government has begun the decentralization of solid waste management and has started the pilot decentralization of Rural Water Supply service.</b></p> <p>7. Funding has been provided for the construction of 34 district offices in poor rural areas to allow for efficient service delivery.</p>	<p>Functional assignments are devolved to subnational administrations with a clear distinction between delegated and decentralized functions.</p> <p>Functional assignments are incorporated into government regulations together with systems for their continuous review and amendment.</p>
<b>C. Endowing subnational levels of administration with adequate revenue collection capacity</b>			
<b>4. Assignment of efficient tax and non-tax revenue to subnational administrations</b>	<p><b>4.1 Assignment of property tax revenues to the provincial administrations</b></p> <p>4.1.1 Policy paper on tax and nontax revenue assignments to subnational administrations discussed by the MEF and NCDD-S</p>	<p>The government has expanded the revenue bases of subnational administrations with new own source revenue instruments. Accomplishments include:</p> <p><b>8. Nontax revenue sources (fees and charges) have been assigned to subnational administrations.</b></p> <p>9. A draft subdecree mobilizing tax revenue to districts and municipalities has been confirmed, in principle, by the PFM Reform Committee and has been submitted to the General Secretariat of the committee.</p>	<p>Differentiated and efficiently designed revenue assignments provide adequate own-source revenues.</p> <p>Revenue mobilizations (including tax and non-tax) are incorporated into government regulations together with provisions for their continuous review and amendment.</p>



Objectives and Policy Actions	Subprogram 1 (Phase 1) Summary of Actions Accomplished Under Subprogram 1 (2010–2012)	Subprogram 2 (Phase 2) Milestones for Subprogram 2 (2012–2016)	Post-Program Partnership Framework
<b>D. Designing equitable, efficient, and adequate intergovernmental fiscal transfers for subnational authorities</b>			
<b>5. Implementation of fiscal transfers that ensure comparable levels of service delivery across subnational administrations</b>	<p><b>5.1 District/Municipal Fund approved with implementation started</b></p> <p>5.1.1 Subdecree on the District/Municipal Fund approved as a discretionary source of financing that establishes budget separation</p> <p>5.1.2 District/Municipal Fund includes a development, discretionary, and formula-based component that receives increasing allocations over and above the expenditures on salaries and operations and maintenance</p>	<p>The government further expanded the system of fiscal transfers to support decentralization of service delivery by increasing the allocation to districts and municipalities through the D/M Fund. Accomplishments include:</p> <p><b>10. The allocation formula for the D/M Fund was revised to increase its size and improve its structure, and was subsequently incorporated into the D/M Fund subdecree to provide full disclosure, including data sources and weight factors, to all districts and municipalities.</b></p> <p>11. The government released fund allotments under the D/M fund and the C/S fund in a timely and transparent manner and is now incorporating allocations to the D/M Fund in the budget.</p> <p><b>12. A review of financing modalities for provinces has been completed, and pilot formula based approaches to provincial budgeting have been launched.</b></p>	<p>Unconditional transfers are provided to subnational administrations based on an institutionalized methodology that incorporates their expenditure needs and capacity to collect own-source revenue.</p> <p>A formal system is established to provide conditional grants to subnational administrations to finance delegated functions.</p>
	<p><b>5.2 Subdecree on the SNIF drafted by the NCDD-S, with involvement of gender experts</b></p> <p>5.2.1 Policy paper on SNIF design options discussed by NCDD-S and MEF</p>	<p>The government has established new fiscal transfers for local investment projects and has improved the efficiency and transparency of existing transfers. Accomplishments include:</p> <p><b>13. The government established, and provided a funding mechanism for a sub-national investment fund to provide well performing subnational administrations financial resources for local infrastructure projects.</b></p> <p>14. A governance structure for the sub-national investment fund was completed, which is based on a board composed of relevant agencies, and which mandates adequate financial disclosure, external audit and provisions to support monitoring by citizen's to ensure transparency and accountability in its operations.</p>	<p>The SNIF provides an increasing amount of resources for local investment, and rewards good project formulation under a competitive selection process.</p>

Objectives and Policy Actions	Subprogram 1 (Phase 1) Summary of Actions Accomplished Under Subprogram 1 (2010–2012)	Subprogram 2 (Phase 2) Milestones for Subprogram 2 (2012–2016)	Post-Program Partnership Framework
		15. Conditional grants have been designed to support the rural water supply projects of subnational administrations and, based on service delivery standards, are being implemented through the SNIF.	
<b>E. Ensure sound financial management at the SNA level</b>			
<b>6. Capacity development in support of efficient decentralized public financial management</b>	<b>6.1 Establishment of the legal foundations of a decentralized system of financial management</b>  6.1.1 Sub-national Finance Law approved and implementation started	The government consolidated the legal foundations of a decentralized system of financial management. Accomplishments include:  16. The government has implemented a Subnational Budget Classification system and Chart of Accounts along with guidelines governing the preparation, execution, accounting and payment procedures for district and municipal budgets.  17. The government has completed a draft law which will cover the management of public property at subnational level.	A Sub-national finance law and associated regulations are fully implemented to provide a comprehensive framework for intergovernmental fiscal relations and local public financial management.
	<b>6.2 Subdecree for subnational financial management procedures approved</b>  6.2.1 Regulation on the management procedure of public property at subnational administration drafted  6.3 Capacity needs assessment of the Local Finance Department of the MEF finalized and recommendations being implemented  6.4 District and municipal office of the MEF – Local Finance Department created and operational	The capacity of the National Audit Authority has been strengthened. Accomplishments include:  18. The government deployed financial, and compliance audit procedures for subnational administrations, trained its auditors including 100% of the female auditors, and audited 14 provinces in 2014, representing a 100% increase over 2013.  <b>19. The MEF, through the General Departments of Procurement, Treasury and SNAF, conducted training for municipal and district officers on all relevant implementing regulations of the Sub-national Finance Law and financial management procedures (Female officer represented 18% of trainees).</b>  <b>20. The government strengthened the capacity of the MEF to monitor subnational administration finances</b>	Internal and external audit mechanisms for subnational administrations are established that ensure adequate transparency in the use of public funds  Regular capacity building systems for district financial officers are developed and institutionalized, ensuring adequate participation of female officers  The MEF achieves

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		by developing the subnational administration financial database, a draft PFM handbook for subnational administrations, and by providing capacity development for MEF personnel.	effective oversight of subnational administrations.
<b>F. Foster accountability of subnational administrations towards their constituencies/jurisdictions</b>			
<b>7. Design and implementation of accountability mechanisms for subnational administrations to their constituencies</b>	<p><b>7.1 Develop and implement council deliberation systems, integrating gender perspectives and gender equity concepts</b></p> <p>7.1.1 Draft technical manuals for subnational council meetings and public forums finalized and piloted, that promote gender-sensitive processes promoting equal opportunities for participation.</p> <p><b>7.2 District charter template developed by the NCDD-S</b></p>	<p>The government implemented policies to increase the social and political accountability of local administrations to their constituents. Accomplishments include:</p> <p><b>21. The government implemented coaching and mentoring systems, including the completion of technical manuals for subnational council meetings and public forums, training (100% of female counselors trained) and the establishment of targets for the recruitment of trainers and coaches to increase the share of women</b></p> <p><b>22. District charters have been adopted by all districts and the NCDD-S has approved a Social Accountability Framework for subnational administrations, including a supporting implementation plan.</b></p>	<p>The preparation of planning and budgeting processes include the participation of civil society, with a view to incorporate gender aspects in local plan and budget formulation.</p>

C/S = commune/*sangkat* fund, D/M fund = districts/municipalities fund, IP3 = 3 year implementation plan, MEF = Ministry of Economy and Finance, NCDD-S = National Committee for Sub-National Democratic Development Secretariat, SNA = subnational administrations, SNDD = Sub-national Democratic Development, SNIF = Sub-National Investment Fund, SNAF = Sub-National Administration Finance Department.