

**PROJECT INFORMATION DOCUMENT (PID)  
ADDITIONAL FINANCING**

Report No.: PIDA13032

<b>Project Name</b>	Cambodia PFMMP-Additional Financing P151984 (P151984)
<b>Parent Project Name</b>	Cambodia PFM Modernization Project (Sodeth Ly co-TTL) (P143774)
<b>Region</b>	EAST ASIA AND PACIFIC
<b>Country</b>	Cambodia
<b>Sector(s)</b>	Central government administration (100%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (40%), Administrative and civil service reform (20%), Tax policy and administration (20%), Law reform (20%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P151984
<b>Parent Project ID</b>	P143774
<b>Borrower(s)</b>	Ministry of Economy and Finance
<b>Implementing Agency</b>	Ministry of Economy and Finance
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/Updated</b>	03-Dec-2014
<b>Date PID Approved/Disclosed</b>	03-Dec-2014
<b>Estimated Date of Appraisal Completion</b>	19-Dec-2014
<b>Estimated Date of First Grant Approval</b>	26-Jan-2015
<b>Decision</b>	

**I. Project Context**

**Country Context**

Cambodia has experienced remarkable economic growth and macroeconomic stability over the past years. Its growth rate has averaged 8 percent per annum during 2002 – 2012, ranking the 14th fastest real GDP growth in the world over that period. Per capita income in current prices has doubled over the past decade, reaching US\$1,036 in 2013 from US\$367 in 2003. As a result, the poverty rate has decreased by more than half from 53.0 percent in 2004 to 18.6 percent in 2012, surpassing all expectations and far exceeding the country’s Millennium Development Goal (MDG) poverty target. This performance has been achieved after Cambodia managed its historical transition from a planned economy toward a market-based economy, and ended its two-decade long conflict.

Cambodia has made progress in establishing public institutions, particularly in public financial management. In recent years, the Government has improved the functioning of the core public

management systems, such as the mechanisms for planning, budgeting, spending, and accounting for the use of public funds. Oversight and regulatory institutions have been established and vested with formal powers to resolve conflicts, and monitor and hold government agencies and individuals accountable for failure to comply with rules and/or misbehavior. It has continued to develop the overall structure of government, establishing a decentralized system of government that can be used to get services and decisions closer to the Cambodian people. Throughout the process, the Government has demonstrated its ability to deliver services – building roads, providing education and health services – and to create conditions that have enabled sustained and speedy growth and poverty reduction.

Notwithstanding the progresses made, Cambodia could benefit more from rapidly reducing the constraints to the government's ability to deliver fair, effective and cost-efficient public services that support sustainable and inclusive growth. Cambodia's successful development and that of its neighbors has raised and will continue to raise citizens' expectations for basic services in health, education, infrastructure, and beyond. Stronger institutions, enhanced transparency, and better governance and accountability will be the critical components to ensure the goals of higher living standards without social exclusion.

### **Sectoral and institutional Context**

In December 2004 the Royal Government of Cambodia (RGC) adopted the Public Financial Management Reform Program (PFMRP), which is a long-term reform program based on a stage/platform approach that addresses overarching and systemic public financial issues. Since its inception, the PFMRP has enabled Cambodia to achieve significant progress in reforming public expenditure policy and public finance. Substantial progress under Stage One over the past 6 years has validated the sequenced approach. Tax revenue administration has been strengthened significantly, as have budget preparation and management, macro-fiscal discipline, and debt management. Commitments and payments request processes have been streamlined. The use of cash in revenue and expenditure transactions has decreased; bank accounts have been closed; the Treasury Single Account has been strengthened. Externally-financed investment is better captured in budgets and budget execution reports. Capacity has improved somewhat, partly due to the long term training programs and the incentives provided. As assessed by the External Advisory Panel (EAP) in January 2010 the majority of PFMRP performance indicators under the Platform One have been met (of the total 29 indicators, 15 met, 7 partly met, 4 not measured, 3 not met).

Despite the-slower-than-anticipated initial progress under Stage Two (which began in 2009), efforts have been stepped up significantly over the past two years to increase financial accountability. Much of the work centers on five interlinked catalysts that focused on FMIS implementation as set out in the Ministry of Economy and Finance (MEF)'s sequenced and prioritized strategy supported by three working groups: line accountability, budget execution, and accounting standard groups. A comprehensive six-segment uniform account code structure that (i) unifies the budget and accounting functions into a single structure, (ii) classifies the budget using Classification of the Functions of the Government (COFOG) and Government Financial Statistics (GFS), and (iii) complies with the International Public Sector Accounting Standards (IPSAS) has been finalized and approved. The policy for developing budget entities below the ministerial level has progressed and will be piloted for the FY 15 Budget. Internal audit has been strengthened with the establishment of internal audit departments in 26 ministries, of which 23 are active. In addition, the use of commercial banks for collections and payments continues to expand across the country and a new

Public Procurement Law is in place. The Debt Management and Financial Analysis System (DMFAS) implementation is under way and the debt management legal framework is under preparation. The FMIS contract was awarded in December 2013. The most recent EAP (August, 2012) found that of the total 62 indicators 13 had been met; 26 were partially met; 22 had not been met and 1 indicator was not applicable.

The PFMRP is and remains a sector-wide approach. In addition to the support through the Multi Donor Trust Fund (MDTF), the PFMRP also receives direct technical and financial support provided by a number of donors including the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), the US Treasury, and the International Monetary Fund (IMF). During the 2012 annual retreat, Development Partners and the MEF jointly agreed with the EAP assessment that the PFMRP is on the right track and that the strategy remains valid.

Despite progress, such gains remain insufficient to reach efficiency and transparency targets of similarly transforming countries in the region. One of the key findings of the second Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) published in 2011 was the need to increase the scope for further reforms to improve revenue collection. Increasing fiscal space through reducing tax exemptions, tightening collection, and restructuring existing spending should help offer room for larger allocations to areas crucial for sustaining strong and inclusive growth. Sectoral coordination issues, institutional fragmentation, and weak capacity continue while legislative oversight requires further strengthening. Therefore, capacity development and institutional strengthening have always been integral components of any key reform initiatives in Cambodia. In addition, devolving greater responsibility to sub-national administrations and service delivery units are being gradually carried out together with the efforts made to align government strategic goals, budget priorities, and donors' support.

## **II. Proposed Development Objectives**

### **A. Current Project Development Objectives – Parent**

The project development objective is to enhance public financial management by strengthening: (a) revenue mobilization and (b) budget execution processes through the implementation of the Financial Management Information System (FMIS). Progress against the principal objective will be measured by the contribution made to the PFMRP's Key Performance Indicators and Targets set forth under the Stage Two of the PFMRP.

## **III. Project Description**

### **Component Name**

Mobilization of Revenue and Project Management Functions of the GSC

### **Comments (optional)**

The first component is revised from "revenue mobilization strategy and SCS operations support" to "Mobilization of Revenue and Project Management Functions of the GSC" to reflect the function of the "SCS operations" corresponding to the SCS' new name and structure within the GSC.

### **Component Name**

Improving the budget execution processes through the implementation of the FMIS

### **Comments (optional)**

#### IV. Financing (in USD Million)

Total Project Cost:	7.50	Total Bank Financing:	0.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			0.00
Cambodia Public Financial Management Partnership			7.50
Total			7.50

#### V. Implementation

#### VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

#### Comments (optional)

The project does not include activities that may incur significant social or environment risks. However, through the support provided, it is anticipated that the services government provides will be impacted (and improved) and as such there will indirect social implications, expected to be positive. There will be greater transparency over the allocation of resources between sectors at central, provincial and district levels. The project will finance consulting services, goods, training and workshops. There are no civil works or any activity that may have negative environmental implications.

#### VII. Contact point

##### World Bank

Contact: Leah April  
Title: Sr Public Sector Mgmt. Spec.  
Tel: 5721+1352  
Email: lapril@worldbank.org

##### Borrower/Client/Recipient

Name: Ministry of Economy and Finance

Contact:  
Title:  
Tel: 855-23-724664  
Email: admin@mef.gov.kh

**Implementing Agencies**

Name: Ministry of Economy and Finance  
Contact: World Bank Division  
Title:  
Tel: (855-23) 1286-1355  
Email: ferp-mefwbd@camnet.com.kh

**VIII. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>