This action is funded by the European Union

**ANNEX 2**

of the Commission Implementing Decision on the financing of the annual action programme in favour of Cambodia for 2018 and 2019 part 1

**Action Document for EU support to Public Financial Management Reform Programme**

– Stage III (2)

| 1. Title/basic act/CRIS number | EU support to Public Financial Management Reform Programme – Stage III (2)  
| CRIS number: 2018/040-874 | financed under Development Cooperation Instrument (DCI) |
| 2. Zone benefiting from the action/location | Asia, Cambodia  
| The action will be carried out at the following location: Phnom Penh, Cambodia |
| 3. Programming document | Addendum N°1 to the Multiannual Indicative Programme (MIP) between the European Union and Cambodia for the period 2014-2020¹ |
| 4. Sector of concentration/thematic area | Governance and Administration, specific objective related to the Public Financial Management Reform Programme (PFMRP) of the Royal Government of Cambodia (RGC) |
| 5. Amounts concerned | Total estimated cost: EUR 27 000 000  
| Total amount of EU budget contribution: EUR 22 000 000, of which:  
| - EUR 14 000 000 for budget support  
| - EUR 8 000 000 for complementary support |  
| This action is co-financed in joint co-financing by:  
| - Swedish International Development Cooperation Agency (SIDA) for an amount of EUR 3 800 000;  
| - The Department of Foreign Affairs and Trade (DFAT) of Australia for an amount of EUR 1 200 000. |
| 6. Aid modalities and implementation | Direct management – Budget Support: Sector Reform Performance Contract |

¹ C(2018)4741 of 20.07.2018
### Modalities
- Direct management – Procurement of services
- Indirect management with SIDA and the World Bank

#### 7. DAC code(s)
- 15111

#### 8. Markers (from CRIS DAC form)

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### SUMMARY

In line with the national Rectangular Strategy III (RS III) 2014-18 the objective of the Government-owned Public Financial Management Reform Programme (PFMRP Stage 3 2016-2020) is to strengthen public finance management systems in order to implement Cambodia’s development agenda, reduce poverty and improve delivery of public services as set out in the National Strategic Development Plan (NSDP). EU support to PFMRP together with other Donors for the last decade has resulted in increased budget credibility and financial accountability.

The third stage of the PFM reform covers the period 2016-2020 and includes among its objectives consolidation of the financial accountability platform through expansion of the Financial Management Information System (FMIS) to line ministries and strengthening links between budget process and sector policy priorities. Despite its well-identified associated risks, the reform is considered by all development partners (DPs) as a credible set of measures to bring national PFM systems up to international standards. It is proposed that EU support to PFMRP Stage 3 be delivered through budget support combined with a delegation agreement with SIDA focusing on accountability and transparency systems and an administrative agreement with the WB to provide Programmatic Advisory Services and Analytics.
This action is a top-up to the ongoing EU PFM budget support\(^2\), which will enable the continuation of the EU support to the PFM reform for an additional two years. This programme will aim at improving (i) institutional capacity to implement the PFM reform, (ii) national statistics, (iii) national budget comprehensiveness and transparency, (iv) policy-based budgeting, (v) predictability and control in national budget execution, (vi) accounting, recording and reporting, (vii) external scrutiny and audit of the national budget, and (viii) public accountability.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

1.1.1 Public Policy Assessment and EU Policy Framework

Cambodia's growth remains strong, driven by robust exports, tourism, and construction. Real GDP growth in 2017 reached 6.9%, in line with projections, mainly driven by the construction and garment sectors. Despite a slight slowdown, GDP growth is expected to remain strong with rates of around 6.8% in 2018 and 2019. However, in spite of high economic growth and steady progress in reducing poverty, Cambodia faces a number of important challenges, including a narrow-based economic structure that makes it vulnerable to external shocks. Clear progress has been observed in Government's efforts to gradually address these challenges, notably through initiatives to accelerate economic diversification, increase domestic revenue mobilization, strengthen the investment climate, and reinforce public financial management.

Structural reforms accompanying economic diversification are a priority concern. In this context, improvements in governance and associated reforms are among the most important factors for inclusive and sustainable growth in Cambodia, as poverty and social exclusion are inextricably linked to weak governance. Focusing on strengthening the responsiveness and accountability of the state through good governance reforms is a key.

The Rectangular Strategy III (RS III) 2013-2018 has at its core a comprehensive good governance reform programme. The fourth overall priority of RS III focuses on "Strengthening governance and capacity of public institutions", which encompasses the reform of Public Finances as well as the process of improving Subnational governance and the quality of Public Administration. The NSDP 2014-2018 operationalizes the RS III and provides credible targets. The first outcome of the NSDP results framework includes the creation of "strong macroeconomic fundamentals, conducive environment for domestic and foreign investments, open economy, increased exports, better tax collection and increased non-tax revenues, expenditures in priority areas". Commitment to the reform programs for good governance will still be considered a key element in the new Rectangular Strategy IV 2019-2023 under preparation.

The overall objective of the national PFMRP is to strengthen the governance of public funds in order to implement the country’s development agenda, reduce poverty and improve

\(^2\) DCI-ASIE/2015/037-958 : EU support to Public Financial Management Reform Program - Stage 3
delivery of public services. The reform is articulated around a series of four sequenced platforms, implemented in stages:\(^3\):

- **Platform 1 (budget credibility)** is about developing a credible budget and delivering predictable resources. It includes establishing the Single Treasury Account, strengthening revenue collection and developing fiscal space, improving revenue forecasting and macro-fiscal modelling to ensure fiscal sustainability, establishing cash management procedures, implementing procurement reform, and finally putting in place a debt management strategy with modern management tools.

- **Platform 2 (financial accountability)** aims at providing financial information in a timely manner mainly through Financial Management Information System (FMIS) implementation and improving internal control to hold managers accountable. It includes implementing a modern chart of accounts based on IPSAS standards, developing new budget classification, a transaction coding structure and accounting rules, implementing a FMIS, clarifying line of responsibilities through a clear budget entity structure linked to a responsibility/expenditure assignment, and developing a reporting structure, including financial statements that comply with international standards.

- **Platform 3 (budget-policy linkage)** focuses on improving linkage between economic planning and economic policy priorities as reflected in the National Sustainable Development Plan (NSDP) and budget planning. It includes developing a hierarchy of medium term programming tools and implementing programme budgeting\(^4\) with some elements of fiscal decentralisation.

- **Finally, Platform 4 (performance-based management)** intends to deliver broad accountability through better-designed PFM processes and performance-based management.

Since its inception in 2005, through its platform approach, the PFMRP has been recognised by all assessments and evaluations as a set of credible measures to facilitate the transition of Cambodia from centrally input based financial management systems to decentralized performance based management in order to achieve the modern and effective PFM system, operating to international standards and best practices by 2025.

The PFMRP is strongly owned by the Royal Government of Cambodia (RGC). With the EU having increased the use of Cambodia’s national systems in its main bilateral development programmes, support to PFMRP is fundamental and will help Cambodia more effectively and efficiently allocate financial resources to priority areas, while also leading to greater transparency and accountability to the population.

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\(^3\) “Platforms” were defined as a set of activities with one main focus, capable of progressing independently from other platforms, while “Stages” were defined as the aggregation of all activities occurring simultaneously on all platforms for a certain period of time.

\(^4\) In programme budgeting, expenditures are allocated by programmes which are groupings of government activities in relation to specific government objectives. Performance budgeting adds performance metrics to budgets whereby program structures are presented. The goal of the RGC’s Budget Reform is to introduce program budgeting and gradually move to performance budgeting by 2025.
The European Development Cooperation Strategy for Cambodia 2014-2019\(^5\) reflects the plan of EU Member States and Switzerland to work in partnership with the RGC and others to ensure greater coherence, predictability, impact and transparency of European development assistance to Cambodia. Strengthening national governance by means of supporting the implementation of institutional reforms is at the forefront of the operationalization of the European division of labour. With this objective, the European Joint Strategy recalls that "The Public Financial Management Reform programme remains essential to finance vast development needs without jeopardizing fiscal sustainability". Therefore, European partners are committed to support the PFM–RM\(^6\) aimed at improving the efficiency and effectiveness of Cambodia's public financial management system according to international standards, through enhancing budget credibility and transparency, enhancing financial accountability through introducing the financial management information system (FMIS) and strengthening links between planning, budgeting and results”.

The European Joint Strategy and the EU Multiannual Indicative Programme (MIP) 2014-2020 for Cambodia\(^7\) include EU support to the PFM–RM as a sub-component of the third pillar "Governance and Administration”. PFM\(^6\) has as a Specific objective 1 to "improve the governance of public funds in terms of planning, budgeting, execution, reporting and auditing, in order to increase efficiency, transparency and accountability and improve the delivery of public services as set out in the Government’s NSDP". The Mid Term Review of the MIP\(^8\) has reallocated an additional EUR 10 million to the PFMR. The MIP sector intervention framework for PFM outlines the following expected results:

a) Enhanced national and local capacities in PFM;
b) Improved revenue mobilisation and fiscal space for deploying other key Governance reforms;
c) More efficient use of resources and better alignment of expenditure with national priorities to improve Government’s service delivery;
d) Increased reliability, accountability and transparency (availability of financial information) of Government’s operations at all levels of the management line.

Every stage of the PFM reform corresponds to a Consolidated Action Plan (CAP) to which Development Partners refer as the Government-owned master plan. The CAP 3 (2017-2020) as labelled by Ministry of Economy and Finance (MEF) will guide and monitor reform implementation until Stage 3 ends in 2020. The following phase of the reform (post 2020) should be defined by the MEF on the basis of a Public Expenditure and Financial Accountability (PEFA) assessment.

Stage 3 of the reform is critical for its key objective of linking national policies and the budget. The reform will need to interact with other reforms, sectors and institutions that are part of the PFMRP environment and will improve overall public accountability. This environment encompasses public administration and decentralisation reforms, parliamentary oversight, external audit, and the role of the civil society through its representative bodies in making the government and these institutions ultimately more accountable to the public.

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\(^{6}\) European partners working in this area are the EU Delegation and Sweden.


[5]
Risks associated to the reform are well identified and detailed in Section 2 below. They essentially relate to maintaining political will over the duration of the reform, weak institutional capacity in MEF and line ministries to implement reforms and a potential disconnection of the reform from its institutional environment and the population as a whole. Mitigation measures are proposed.

1.1.2 Stakeholder analysis

Stakeholders include general departments of MEF, the General Secretariat of PFMR Steering Committee (GSC), line ministries and provincial treasuries.

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

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

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

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

The Parliamentary committees on budget and anti-corruption are responsible for legislative scrutiny of the budget and NAA audit reports and integrity of the use of public finance.

Civil society organisations (CSOs) have a key role in preparing and carrying out concrete and visible actions for monitoring and assessing budget and audit transparency, anti-corruption, and fostering public participation in the dialogue on policy and budget issues.

A new strategic Capacity Development Plan (SCDP) for the government officials within the framework of PFMRP was officially approved on 05 January 2018, aiming to assure the capacity strengthening and development programs being prepared and implemented systematically, collectively and comprehensively. The Economics and Finance Institute (EFI) was promoted in 2015 to be a general department of MEF responsible for research, and training for government officials on PFM in coordination with other MEF general departments, line ministries and relevant partners. Considering the large numbers of stakeholders in the PFM reform and the need to accelerate capacity building for reform implementation as new PFM systems are to be rolled out, it becomes crucial to introduce a strong coordination mechanism for planning and delivery of capacity development activities. Beyond the MEF, this should involve the Royal School of Administration and all other relevant institutes under line ministries at central and sub-national level.

In order to support these activities, the European Union, Swedish International Development Cooperation Agency (SIDA) and The Department of Foreign Affairs and Trade (DFAT, Australia) decided in 2006 to coordinate their funding efforts though a trust fund managed by the World Bank. The harmonised funding helped supporting the overall reform until 2015.

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9 See Kingdom of Cambodia - European Country Roadmap for engagement with civil society 2014-2018
Current support to Stage 3 of the PFMRP more specifically focuses on the implementation of the FMIS and of the revenue mobilisation strategy. In 2015, EU support to the PFM reform began to be implemented under budget support modality and a joint programme with SIDA “Partnership for Accountability and Transparency (PAT)10”. The EU is now the main development partner supporting the PFM reform, and the present action has been instrumental to strengthen policy dialogue.

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

- JICA provides support to Tax Administration, Customs Policy and Customs Administration, Public Investment Policy and Aid Management. IMF finances two technical advisors to MEF in the fields of accounting, budget execution and macro-economic analysis.

- IMF Fiscal Affairs Department (FAD) and Technical Assistance Office in Thailand (TAOLAM) provides technical assistance (TA) missions to monitor and advise on progress of the FMIS Phase II roll-out and define the scope of the IMF’s support related to this initiative.

- In the area of PFM reforms, ADB supports the de-concentration and capacity building of PFMRP into 8 line ministries from 2017 onwards. Amounting to USD 20 million, this support would essentially take the form of a targeted budget support operation funded through a concessional loan, associated to a project approach.

-UNICEF supports the implementation of the consolidated training manual for Budget Strategic Plans (BSP), Programme Based Budgeting (PB) and Budget Execution, establishment of an automated budget formulation system and systematisation of a more regular dialogue and comprehensive feedback between MEF budget department and key social sector ministries.

1.1.3 Priority areas for support/problem analysis

The ongoing Consolidated Action Plan 3 (CAP3) was formulated in 2015 essentially based on PEFA recommendations. It focuses in particular on a multi-year perspective on fiscal planning, implementation of programme budgeting to all line ministries and implementation of FMIS. This aims at improving the link between sector strategies and national budget allocations. However, the MEF continues to strengthen some elements (budget integration, public procurement, FMIS expansion, revenue mobilisation, cash management) of the two previous action plans that have been already implemented. This action supports the implementation of the Consolidated Action Plan 3, as well as the "Budget System Reform Strategy 2018-2025" (BSRS) that incorporates a more focused and sequenced set of goals and timeframe of the CAP3. In particular, the BSRS endorses a shift from the originally planned "performance-based budgeting" to the more realistic "performance-informed budgeting"11. The MEF has requested technical assistance to support the General Department of Public Procurement (GDPP) to develop a procurement reform strategy and budget system

10 ACA/2016/376-316 (under Decision DCI-ASIA/2015/037-958) : Partnership for accountability and transparency in Cambodia

11 With performance-informed budgeting, resources are not directly related to performance, as was envisaged in the previous budget reform strategy, but performance information is used in the budget allocation process.
reform strategy for sub-national level that should run in parallel to the Budget System Reform Strategy. The objective is to delegate the full authority for procurement to line ministries/institutions. The procurement plans should also form part of the budget negotiation process, which will require the submission of the procurement plans by the budget entities to the MEF prior to the commencement of the negotiation process. The procurement process will be made more competitive, efficient and transparent. Conflict resolution or grievance handling mechanisms will be improved and made independent. A complete set of harmonized rules, regulations and procedures will be developed. The functions of the regulator will be strengthened which will include monitoring and evaluation of the procurement system, regular procurement audits and management of sanctions regime. The functions of the regulator will be strengthened which will include monitoring and evaluation of the procurement system, regular procurement audits and management of sanctions regime.

Weaknesses in the institutional PFM setup tend to be located on the MEF periphery, namely in provincial treasuries, line ministries and agencies such as the National Audit Authority (NAA) and the Anti-Corruption Unit (ACU). This does not exclude MEF itself from more institutional development and capacity building.

A newly approved Strategic Capacity Development Plan in the Framework of the PFM reform has been implemented as part of the CAP3. Capacity issues were a recurrent subject. This plan was therefore welcomed by line ministries and the donor community. However, line ministries not only need training but also require upfront deep structural changes in their managerial setup, notably with the establishment of ‘budget entities’ and internal audit units, and new lines of accountability between the planning, finance, inspection, and technical departments.

This action is implemented in partnership with Statistics Sweden, who provides support to NIS to generate basic national account statistics and to improve the quality and timeliness of economic and financial statistical data. As from 2019, it is also envisaged to support NIS to improve its management, Information Communications Technology (ICT) capacity and facilitate its central role to monitor the Sustainable Development Goals (SDG) as well as national statistical system in line with the quality framework.

Swedish Audit Office support has led to some progress in improving the quality of audits; however the NAA is in need of considerable support to carry out its mandate in line with international standards. Swedish National Audit Office and the NAA extended their partnership initiated in 2011 through a new Memorandum of Understanding in 2018 to focus on developing institutional capacity and performance audit in accordance with International Standard of Supreme Audit Institutions (ISSAI).

Supporting the capacity of the Parliamentary Committee on budget and anti-corruption to analyse in detail budget and audit reports as well as anti-corruption and PFM programmes will be key to improve Government accountability. This can be supported with capacity building to the committees and the establishment of a Parliamentary Budget Office (PBO), through the Parliamentary Institute for Cambodia (PIC), which has been supported by SIDA since it was established in 2011.

Since 2008, SIDA has supported Transparency International Cambodia (TIC) in promoting public accountability on questions related to anti-corruption and budget oversight. The NGO Forum has also played an important role in PFM reforms and budget scrutiny, in particular through the coordination of the bi-annual Open Budget Survey (OBS). Further support is
required to build CSOs' capacity to analyse and reach out to the authorities and the public in general.

Furthermore, the proposed Trust Fund with the World Bank will provide technical assistance and analytical tools to support the government’s PFM and cross-cutting public-sector management reforms at central, sectoral, and subnational levels:
- Technical assistance (advisory services) for addressing outstanding PFM and cross-cutting public sector reforms at the central, sector, and the subnational levels.
- Analytical report, think piece, and policy notes on PFM related aspect for improvement of quality of public service and fiscal transparency including Public Expenditure Tracking Survey (PETS), Quality of Public Service Delivery Survey (QSDS), Public Expenditure Review (PER), including capacity building to MEF staff on those tools.
- Innovative solutions and cutting-edge tools for building government’s capability in delivering public services; knowledge exchange; policy dialogue; and knowledge dissemination.

1.2 Other areas of assessment

1.2.1 Fundamental values

Democracy and rule of law remain a concern in Cambodia. On 22 July 2014, the political deadlock originating from the July 2013 parliamentary elections was lifted as the opposition parliamentarians took their seats at the National Assembly. This marked the return to political dialogue and discussions around electoral reform, including the reform of the National Election Committee (NEC) as a condition set by the opposition. At the end of 2016, the new National Election Committee (NEC) conducted a new voter registration process through a computerised system that registered 7.8 million voters and was widely seen a positive step toward the exercise of credible election. In June 2017 Cambodia held commune/sangkat elections, which were technically well organised and transparent. However on 4 September 2017, the leader of the main opposition party CNRP, Kem Sokha, was arrested on charges of treason. On 16 November 2017, the Supreme Court decided to dissolve the CNRP and ban 118 of its members from political activities for 5 years. In anticipation of this dissolution, the government had amended electoral and party laws allowing the removal of CNRP elected officials and redistributing their seats to the ruling party CPP and to minor parties. These amendments were approved by the Senate on 20 October 2017 and CNRP members were removed from their seats in the National Assembly and Commune/ Sangkat Councils. Some members of the NEC appointed by CNRP resigned their positions. The dissolution of the CNRP signifies the end of the political agreement reached in 2014.

The enforced dissolution of the main opposition party calls into question the credibility of the upcoming July 2018 national election even though 20 political parties have registered to participate. In parallel there has also been since 2017 a restriction on civic space for civil society organisations, including for them to comply with the new Law on Associations and Non-Governmental Organisations, particularly for those working on sensitive issues such as human rights, political rights, and the fight against corruption as well as on land rights.

Following these developments, EU Foreign Affairs Ministers have adopted on 26 February 2018 Council Conclusions\(^\text{12}\) in which the EU expressed serious concerns about recent developments.

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\(^{12}\) Council conclusions on Cambodia 6416/18 of 26.02.2018
developments regarding democracy, respect for human rights and the rule of law in Cambodia.

Nevertheless the dialogue between the EU and the Government of Cambodia has been maintained and remains open to discuss those issues.

At the general elections of 29 July 2018, following the enforced dissolution by the authorities of the main opposition party (CNRP), Cambodia’s ruling party, the Cambodian People’s Party (CPP), won all 125 seats in the country’s National Assembly.

However, the implementation of the PFM reform deals with non-partisan technical components that should not be influenced by the prevailing political situation. On the contrary, it’s supposed to bring positive impact on socio economic rights through promoting sustainable economic growth, poverty reduction and better service delivery. This intervention remains relevant despite ongoing political developments.
1.2.2 Macroeconomic policy

Cambodia has conducted successful macroeconomic policies during the past ten years. Policies have been generally in line with IMF recommendations and the Royal Government of Cambodia (RGC) is well aware of the necessity of maintaining them. Despite internal and external challenges, Cambodia's economy maintains high and robust growth. Real GDP growth in 2017 reached 6.9% and in 2018 the economy is estimated to grow similarly at 6.9%. Cambodia's external position remains stable, while the current account deficit has slightly improved as a result of stronger exports. There are four main drivers of growth in Cambodia: garment and footwear exports, construction, tourism and agriculture.

Real GDP growth in 2018 is also supported by fiscal expansion; it is expected thereafter to slightly moderate due to a reduction in FDI, challenges in export diversification, and a moderation in the credit cycle. The external sector further improved in 2016 thanks to higher exports, and import growth that slowed to 9.0% in 2016, compared to 10.5% in 2015, as a result of decelerating imports of basic construction materials and import substitution in the food and beverage sector, as well as continued low oil prices. The deficit is fully financed by large Foreign Direct Investments (FDI) and international loans, mostly on concessional terms, and also by grants.

However, the country's economy remains vulnerable to internal and external shocks, due to its slow diversification and the country’s dependence on a small number of exports (garment, footwear and rice) and tourism. In addition, a high degree of dollarization and weak monetary policy hampers the authorities’ ability to mitigate economic and financial shocks.

The Government is now proceeding with fiscal consolidation following an expansionary stance in response to the 2007 financial crisis. Efforts to increase domestic revenue have proven very effective in Cambodia, as reflected in a significant increase of domestic revenue to GDP, from 15.1% in 2013 to 18.4% in 2016.

In November 2017, discussions with IMF under Article IV consultations focused on maintaining the momentum of fiscal consolidation, containing macro financial risks and improving monetary policy effectiveness in the short term, as well as promoting economic diversification and inclusive growth over the medium term.

1.2.3 Public Financial Management (PFM)

Since 2005, the Government of Cambodia has been implementing a robust reform programme articulated around a series of four sequenced platforms: budget credibility, financial accountability, budget policy linkages and performance accountability, to be implemented in stages. The first series of reforms (2005-2008) focused mostly on achieving Platform 1 objectives, has been considered a success, with overall budget credibility established at the macro-fiscal level. This resulted in improved macro-economic stability, increased revenue mobilisation and predictable overall budget execution. The second stage (2009-2015) introduced a Financial Management Information System (FMIS), as well as a modern chart of accounts based on International Public Sector Accounting Standards (IPSAS) standards, and new budget classification. The implementation plan for the third stage was approved in 2015, for implementation over the period 2016-2020. It has been recently updated, following the approval of the Budget System Reform Strategy 2018-2025.

Progress on Platform 1 (budget credibility) has continued in line with expectations. Implementation of the Domestic Revenue Mobilisation Strategy (DRMS) 2014-2018 has allowed for a surge in domestic revenue. Revenue collection performed above expectations,
with domestic revenues increasing from 17.7% of GDP in FY 2015 to above 19% of GDP in 2017 according to preliminary data. A sound fiscal policy is implemented that keeps budget deficit and debt stocks under control. The Government is now formulating the next Domestic Revenue Mobilization Strategy 2019-2023.

Platform 2 (financial accountability) is still progressing with the Financial Management Information System (FMIS) deployed at Provincial Treasuries since March 2016 and the successful deployment of the system to 10 line ministries as of January 2018. The objective is to roll out the system to all Line Ministries and Provincial Economy and Finance departments by 2020. The FMIS catalysed a number of key reforms such as the development of new budget classification and chart of accounts (updated in 2017), and accounting standards in line with international standards. MEF has also started developing a procurement reform strategy. A complete set of harmonized rules, regulations and procedures will be developed, which will cover both standard internal rules and standard operating procedures (SOP), applied to externally-funded projects.

Platform 3 (Budget Policy Linkages) is gathering momentum. From a pilot phase on the use of "programme budgeting" for few line ministries, the Government has expanded the use of programme budgeting to all but 3 ministries (Interior, Defence and Council of Ministries) and 6 provinces have also started the implementation of programme budgeting.

1.2.4 Transparency and oversight of the budget

The entry point is considered to be met, as the Law on Budget 2018 was approved by the Parliament and published in the National Gazette in December 2017. The Budget is also published on the website of the Ministry of Economy and Finance. The recent Open Budget Survey (OBS) published in March 2018 and covering up to December 2016, confirmed that Cambodia made publicly available online six of the eight key budget documents, in a timeframe consistent with international standards. This reflects a net increase since the previous OBS published in 2015.

Budget transparency has been a main focus of EU policy dialogue attached to its support to Public Financial Management and substantial progress has already been achieved. The MEF has continued to improve and publish a citizen's budget (‘Budget-in-Brief’). It has improved the presentation of its Mid-Year Report and has made it public through its website. It publishes an annual and semi-annual Public Debt Statistical Bulletin; it also publishes on its website procurement plans of line ministries, procurement opportunities, and notices of awards.

2 RISKS AND ASSUMPTIONS

<table>
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<tr>
<th>Risks</th>
<th>Risk level (H/M/L)</th>
<th>Mitigating measures</th>
</tr>
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</table>

13 Defined as: "the government must have published its budget within the past or current budget cycle (either the Executive’s budget proposal or the enacted budget)" (EC Budget Support Guidelines, 2017).
<table>
<thead>
<tr>
<th>Weak institutional capacity in the Line Ministries to implement reforms</th>
<th>M</th>
<th>Implementation of a comprehensive Reform Capacity Development Plan</th>
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<tbody>
<tr>
<td>FMIS implementation will absorb most of MEF and line ministries resources</td>
<td>M</td>
<td>Sustain the oversight committee and carefully monitor developments and results</td>
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<td>NAA strategic plan remains outside the PFMRP creating risk that key accountability and transparency issues are not addressed through support to the PFMRP</td>
<td>M</td>
<td>Create conditions for MEF and National Assembly to engage with NAA. Promote systematic publication of audit reports. Provide indirect support to NAA through twinning</td>
</tr>
<tr>
<td>Lack of synchronisation between PFM, Public Administration Reform (PAR) and Sub-National Democratic Development Reform Programme (SNDD)</td>
<td>M</td>
<td>Encourage the development of a synchronised plan across the board with a common operational platform and indicators supported by donors joint funding initiatives</td>
</tr>
<tr>
<td>Weak procurement practices leading to leakages</td>
<td>H</td>
<td>Improvement of the public procurement legal framework and enforcement mechanisms, and transparency</td>
</tr>
<tr>
<td>Corruption undermines PFM efforts to enforce PFM systems</td>
<td>H</td>
<td>Encourage working relationship with ACU in PFM implementation plans. Reform judiciary system, access to information, amendment of the Anti-Corruption law. Provide support to enhance CSOs capacities</td>
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<tr>
<td>Insufficient engagement of line ministries by MEF</td>
<td>M</td>
<td>In coordination with other donors, develop a plan for PFM reforms in line ministries</td>
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</table>

**Assumptions**

1. The Government of Cambodia will continue to provide strong support to the PFM reform agenda, including through public financing of the reforms;
2. Line Ministries and sub-national administration will allocate sufficient qualified human resources to undertake successfully all the activities in the CAP3;  
3. Public administration reform will be timely to allow for adequate staffing of the financial management function across line-ministries and sub-national administration, with adequate staff retention.

### 3 Lessons learnt, Complementarity and Cross-cutting Issues

#### 3.1 Lessons learnt

Useful lessons have been learnt from the various external assessments including the PEFA finalized in 2015, External Advisory Panel Reports 2016 and 2017, and regular IMF
Technical missions. The Ministry of Economy and Finance (MEF) is flexible in the way it implements its PFM reform. It takes into account recommendations and does not hesitate to seek for internal or external assistance to confront them.

In particular, the Budget System Reform Strategy endorses a shift from the originally planned "performance-based budgeting" to the more realistic "performance-informed budgeting"\(^\text{16}\). The new budget system aims to move from an input-based centralised system towards a result-based decentralised system. In this connection, EU has started providing technical assistance (TA) to MEF to develop a procurement reform strategy\(^\text{17}\) that should run in parallel to the BSRS. This TA also includes technical advice for MEF to develop procurement statistics and improvement of the annual procurement post review report to be published in MEF’s procurement website.

Year after year the quality of reporting as well as the quality of reporting mechanism is improving. However there is still a need for better availability of budgetary analysis for an improved timely decision making process, Development Partners have therefore agreed to undertake again a Multi Donor Trust Fund with the World Bank. This new trust fund will provide specific advisory services, analytical report (Public Expenditure Tracking Survey, Quality of Public Service Delivery Survey (QSDS), Public Expenditure Review.)

Ultimately, the annual monitoring reports also highlight the important level of political commitment to the reform by the Government of Cambodia. However, this has, on some occasions, led to overly ambitious plans compared to internal capacities or funding availability.

3.2 Complementarity, synergy and donor coordination

PFMRP closely interlinks with other key national reforms supported directly or indirectly by the EU and underpins their success, in particular by implementing financial policies needed to provide fiscal space for reforms.

The complex PFMRP governance structure is coordinated by a General Secretariat for PFMR Committee (GSC). The GSC consists of one secretary general and six deputy secretary generals who coordinate PFMRP implementation throughout the Ministry. Since 2014, the structure also progressively associates seconded members of line ministries with the task to deconcentrate PFMRP at sector levels. The GSC ensures implementation of all activities of the reform programme, and reports back to the Public Financial Management Reform Steering Committee (PFMSC) chaired by the Minister, whose role is to monitor CAP developments and coordinate with line ministries and other national reforms. The PFMSC links with the Development Partners through the PFM-Technical Working Group, co-chaired by the EU and ADB. In addition, all line-ministries have formed a PFM Technical Working Group (PFM-TWG) to direct and monitor the implementation of reforms through sector-based PFM action plans validated by the MEF. Until today, the PFMRP governance structure still lacks qualified human resources, which highlights the need to prioritise institutional capacity development.

\(^\text{16}\)With performance-informed budgeting, resources are not directly related to performance, as was envisaged in the previous budget reform strategy, but performance information is used in the budget allocation process.

The link between the PFMRP governance structure and development partners is organised through two main mechanisms:

- DPs involved in PFMR implementation (Australia, Sweden, IMF, World Bank, ADB, JICA, UNICEF and the NGO Budget Working Group) formally meet on a monthly basis in the PFM Development Partner Committee (DPC) meeting. The EU and the ADB co-chair these meetings. The group shares information, coordinates technical assistance and develops joint understanding and positions on key issues.

- DPs and the leadership from the MEF meet on a quarterly basis in the joint PFM technical Working Group (PFM-TWG) to review progress, in particular based on Joint Monitoring Indicators (JMIs) drawn from the CAP, and to discuss DP support. The PFM-TWG is chaired by the Minister of Economy and Finance, with the EU and the ADB acting as co-facilitators. The Non-Governmental Organisation platform "NGO Forum for Cambodia" also participates in the joint TWG-PFM.

These two platforms for policy dialogue are complemented by a series of meetings. The EU member states usually discuss PFM issues in the Development Councillor meetings and EU and SIDA regularly meet to monitor the implementation of the joint programme “Partnership for Accountability and Transparency”.

3.3 Cross-cutting issues

The EU is committed to promoting good governance and democracy, important focal areas within the MIP 2014-20 and the European Joint Strategy. Supporting the PFMRP is fully coherent with this focus, as it will contribute to increased efficiency and transparency in the use of Government and external resources. A better linkage between economic planning and budget formulation will, in particular, help take into account the prioritisation of pro-poor spending, gender issues, natural resource management and environment preservation. It’s worth noting that the results of this action as regards FMIS which should be completed by 2020, currently-introduced program budgeting which will incrementally move to the full implementation of performance informed budgeting by 2025, are the key requirements to enable the implementation of gender responsive budgeting in Cambodia.

4 Description of the action

4.1 Objectives/results

The overall objective of the EU support to PFMRP is to improve Government’s service delivery and to promote economic growth.

The specific objective is to enhance the domestic revenue mobilisation as well as the effective use of resources and alignment of expenditure with national priorities.

The expected results of the budget support are:

1) Additional fiscal space for the RGC;
2) Improved governance and PFM systems;

The expected results of the complementary support with SIDA are:

- Improved quality of national statistics;
- Strengthened mobilisation of domestic revenue;
– Improved effectiveness and transparency of external audit;
– Strengthened parliamentary oversight of the budget;
– Increased public accountability;
– Improving capacity in budgetary analysis

The **expected results** of the complementary support with the World Bank are:

- Outstanding reforms addressed at the central level and PFM technical capacity strengthened in the sectors and at the subnational levels with specific focus on public investment management through technical assistance (advisory services).
- Analytical report, think piece, and policy notes on PFM related aspect are developed including Public Expenditure Tracking Survey (PETS), Quality of Public Service Delivery Survey (QSDS), Public Expenditure Review (PER).
- Innovative solutions and cutting-edge tools for building government’s capability in delivering public services are developed.

This programme is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG Goal 8, promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, but also promote progress towards Goal 1, end poverty in all its forms everywhere; and Goal 10, reduce inequality within and among countries. This does not imply a commitment by the country benefiting from this programme.

### 4.2 Main activities

#### 4.2.1 Budget Support

The **activities for Result 1** are:

– Transfer of up to a maximum of €14 million of financial resources to be included as grants to the Budget of Cambodia in 2016-2020 Fiscal Years;
– Monitoring of achievements of the reform objectives agreed with the Government through independent reviews, regular briefings and discussions;
– Ensuring efficient and timely administrative support to the implementation of the Sector Reform Performance Contract (SRPC).

The **activities for Result 2** are:

– Continued political and policy dialogue with the Government to ensure the implementation of PFM reforms as set in the PFMRP CAP3 2017-2020\(^\text{18}\);
– Provide support to improve capacity development, national statistics, financial management information systems, budget formulation and execution, internal and external audit, revenue mobilisation and public procurement.

The **activities for Result 3** are:

– Support the implementation of the PFMRP CAP3 2017-2020;

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\(^{18}\) The CAP3 2016-2018 was amended by the end of 2016. It was then decided to turn it into a CAP3 2017-2020, which was finally approved by the PFMRP Steering Committee in January 2017.
Support to improve capacity development planning and implementation in coordination with all stakeholders, including Public Administration Reform (PAR) and Sub-National Democratic Development Reform Programme (SNDD) reform committees, other line ministries and subordinated educational institutions such as the Royal School of Administration and the EFI, the Parliament and the NAA.

4.2.2 Complementary support

The activities envisaged under complementary support are:

- Provide technical support to the General Secretariat of PFMR Steering Committee (GSC) in developing and implementing the PFMRP Capacity Development Plan in coordination with the NPAR and SNDD committees, line ministries and other institutions such as the Royal School of Administration and the EFI, the Parliament and the NAA;
- Visibility, review and evaluation activities.

The activities envisaged under Delegated cooperation with SIDA are:

- Technical assistance to the National Institute of Statistics in improving the quality of the National Accounts, including comprehensiveness, link to socio-economic survey, timeliness, access and use, taking into account the leading and coordinating roles of NIS in National Statistical System (NSS);
- Technical assistance to the NAA in institutional capacity building around annual reporting, financial and performance auditing, quality assurance and management, including developing and implementing an IT and Communication Strategy;
- Technical support to the Parliamentary Budget Committees in establishing a Parliamentary Budget Office and in capacity development around ongoing and forthcoming PFM reforms and PFM systems;
- Support to civil society organisations involved in budget transparency and anti-corruption oversight in implementing programmes aimed at increased public literacy of the budget issues.
- Technical assistance to the MEF General Department of Taxation in building institutional capacity to implement the Revenue Mobilisation Strategy.

The activities under Administration Agreement with the World Bank are:

- Provide technical assistance for addressing outstanding reforms at the central level and strengthening PFM technical capacity in the sectors and at the subnational levels with specific focus on public investment management;
- Provide analytical report, think piece, and policy notes on PFM related aspect for improvement of quality of public service and fiscal transparency including Public Expenditure Tracking Survey (PETS), Quality of Public Service Delivery Survey (QPSDS), Public Expenditure Review (PER);
- Provide Analytical studies to propose innovative solutions and cutting-edge tools for building government’s capability in delivering public services.

4.3 Intervention Logic

This programme will aim at enhancing the domestic revenue mobilisation as well as the effective use of resources and alignment of expenditure with national priorities to improve
Government’s service delivery and spur economic growth. This will require strengthening the wider PFM system, through improving (i) institutional capacity to implement reform, (ii) national statistics, (iii) budget comprehensiveness and transparency, (iv) policy-based budgeting, (v) predictability and control in budget execution, (vi) accounting, recording and reporting, (vii) external scrutiny and audit of the budget, and (viii) public accountability. These objectives should contribute to improved confidence of the population in the performance of the Government, particularly as regards the budget process.

Considering the high level of Government ownership over the PFMRP, this programme is proposed to support core PFM reforms through budget support and the PFM reforms enabling environment through a delegated cooperation with SIDA and a multi donor trust fund with the WB. The budget support will further strengthen Government ownership of the reform and enhance the role of the General Secretariat of PFMR Steering Committee (GSC) to lead the policy dialogue with national authorities, development partners and civil society. The transfer of funds to the national Treasury will allow the authorities to ensure part of the funding of key investment for PFMRP implementation, not least the considerable capacity building activities needed in the CAP3 period and the implementation of the FMIS Phase 2.

The complementary support and delegated cooperation with SIDA will provide support to the MEF, NIS, NAA, Parliament and CSOs with a view to bolster capacity development and strengthen the PFMRP enabling environment, building on SIDA's engagement in these areas. The Multi Donor Trust Fund with the WB will provide technical expertise and analytical studies to monitor the impact of PFM reforms in service delivery.

5 IMPLEMENTATION

As confirmed by the Mid Term Review of the MIP 2014-2020, the EU has allocated an indicative amount of EUR 130 million to the Governance and Administration priority area of which EUR 50 million to be earmarked for the PFMRP. A first allocation amounting to EUR 30 million proposed to support the PFMRP activities in the period 2016-2019. This programme allocates an additional EUR 20 million to continue with this successful intervention. Another EUR 2 million have been transferred within the annual allocation from the natural resource management promoting sector to PFM in order to fund the Multi Donor Trust Fund with the WB, as this project will be supportive of all EU sector programmes through focusing on public investment management.

5.1 Financing agreement

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

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.
5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 14 million and for complementary support is EUR 8 million. This amount is based on the consultation with MEF, SIDA and the PFM CAP 3 (2017-2020) estimated cost at USD 40.23 million. In term of annual budget allocation, funding to SIDA is at similar level; TA allocation is reduced by half given the anticipated WB trust fund’s PASA; budget support is increased by EUR 2 million per annum due to the increased scope and scale of the PFM reform with the full expansion of FMIS and Program Budgeting to all line ministries/institutions. The most expensive CAP3 measure will be the implementation of the FMIS Phase 2 (around USD 18 million). The envisaged budgetary support is seen by the MEF as providing additional fiscal space to leverage budget funds for PFMRP investment activities necessary to implement CAP3, mainly FMIS roll out to Line Ministries, as well as an additional incentive to proceed timely with CAP3 implementation. The significant increase of domestic revenue in the last few years has mainly been absorbed by public wage adjustment and investment in priority public infrastructure, while capacity development has lagged behind.

5.3.2 Criteria for disbursement of budget support

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

- Satisfactory progress in the implementation of the PFMRP and continued credibility and relevance thereof;
- Implementation of a credible and relevant stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the PFMRP (CAP3), including domestic revenue mobilisation, and continued relevance and credibility of the reform;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that may be used for variable tranches are the following:

- Strengthened capacity for reform implementation;
- Improved financial management information systems;
- Enhanced adequacy and transparency of fiscal transfers to sub-national administrations;
- Enhancement of budget transparency and capacity of external audit;
- Improved medium term expenditure planning;
- Improved public investment management
- Strengthened mobilisation of domestic revenue;
- Increased transparency of public procurement.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the MEF may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

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

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

The budgetary support will be disbursed in two annual tranches, following the indicative breakdown below:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed tranche</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Variable tranche</td>
<td>10</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total (EUR million)</strong></td>
<td><strong>14</strong></td>
<td><strong>7</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

5.4 Implementation modalities for complementary support of budget support

Both in indirect and direct management, the Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures affecting the respective countries of operation\(^\text{19}\).

5.4.1 Procurement (direct management)

<table>
<thead>
<tr>
<th>Subject in generic terms, if possible</th>
<th>Type (works, supplies, services)</th>
<th>Indicative number of contracts</th>
<th>Indicative trimester of launch of the procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical assistance</td>
<td>Service</td>
<td>2</td>
<td>Q3, 2019</td>
</tr>
</tbody>
</table>

5.4.2 Indirect management with a Member State agency

A part of this action may be implemented in indirect management with the Swedish International Development Cooperation Agency (SIDA).

This implementation entails the building of capacities to reinforce the enabling environment of the PFM reform with a specific focus in transparency and accountability systems. This implementation is justified because SIDA has a long experience in supporting the PFMRP through the Multi-Donor Trust Fund alongside the EU and Australia. Sweden's experience in strengthening PFM reforms and decentralisation in Cambodia, its strong engagement in good governance and anti-corruption strategies, as well as its recognised institutional capacity building through support from Swedish institutions through partnerships with e.g. the National Statistics and Supreme Audit Institutions, and its established support to well-placed CSOs, will contribute to the attainment of the objectives of this programme, in particular improving:

(i) Institutional capacity to implement reform,
(ii) National statistics;
(iii) External scrutiny and audit of the budget; and
(iv) Public accountability.

The entrusted entity would carry out the following tasks: launching and evaluation of calls for proposals and tenders, definition of eligibility, selection and award criteria; evaluation of tenders and proposals award of grants and contracts; acting as contracting authority concluding, monitoring and managing contracts, carrying out payments and recovering moneys due.

5.4.3 Indirect Management with an International Organization

A part of this action may be implemented in indirect management with the World Bank (WB). This implementation entails Technical Assistance/Programmatic Advisory Services and Analytics (PASA) to provide on-demand PFM related capacity building at sector and subnational levels and to provide objective analyses that contribute to policy dialogue and further quality improvement of PFM and public sector reform in Cambodia. This implementation is justified because the WB has long experience in supporting the PFM through a Multi Donor Trust Fund. The World Bank and co-financing Development Partners (SIDA, DFAT) have successful experience with the first two Multi-Donor Trust Funds (MDTF) on PFM, which contributed to substantial improvement of national systems, and led donors to provide direct budget support to the government. SIDA and DFAT are committed to contribute to this MDTF.

For the tasks not yet assessed, the World Bank is currently undergoing the ex-ante assessment. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with tasks under indirect management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply. The Commission’s authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

The table below summarises the indicative budget of this programme.

<table>
<thead>
<tr>
<th>Programme components</th>
<th>EU contribution (amount in EUR)</th>
<th>Indicative third party contribution (amount in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3. Budget support (Sector Reform)</td>
<td>14 000 000</td>
<td></td>
</tr>
</tbody>
</table>
Programme components | EU contribution (amount in EUR) | Indicative third party contribution (amount in EUR)
--- | --- | ---
Performance Contract) | | |
5.4. Complementary support composed of: | | |
5.4.1. Procurement (direct management): Technical Assistance to MEF/GSC | 8 000 000 | |
5.4.2. Indirect management with SIDA | 5 000 000 | 3 000 000 |
5.4.3. Indirect management with the World Bank | 2 000 000 | 2 000 000 |
5.9. Evaluation & 5.10 Audit | 100 000 | |
Totals | 22 000 000 | 5 000 000 |

5.7 Organisational set-up and responsibilities

Review and monitoring of progress in the implementation of the Sector Reform Performance Contract will be entrusted to the PFMRP–GSC. The GSC will liaise as necessary with all stakeholders, including the NPAR and SNDD reform committees, line ministries, Parliament, NAA, and the civil society to ensure comprehensive and effective monitoring.

Regular meetings should be organised and co-chaired by the GSC and the EU Delegation to monitor progress in overall programme implementation (budget support and complementary activities) and identify and address bottlenecks.

5.8 Performance monitoring and reporting

For the budget support component, the MEF will report on macroeconomic performance, improvements in public financial management and budget transparency. Review and monitoring of progress in the implementation of the matrix (performance assessment framework) will be conducted annually by external experts contracted by the European Commission. The reviews will be conducted in coordination with the EU Delegation and MEF in 2020 and 2021.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of the implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the log frame matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

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

5.9 Evaluation
Having regard to the nature of the action, an ex-post evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. This may be undertaken as part of an overall country-wide evaluation of all budget support programmes (including from other development partners) with the partner country.

Ex-post evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that many key PFMRP CAP3 activities such as expansion of programme budgeting, budget entity framework, Medium Term Fiscal Framework (MTFF), Medium Term Budget Framework (MTBF) and decentralisation of functions are of a pilot nature and will need to be confirmed in law during Stage 4 of the reform, which the Commission intends to support with continued assistance.

The Commission shall inform the implementing partners at least 6 months in advance of the dates foreseen for the evaluation missions. The implementing partners shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation report shall be shared with the partner country and other key stakeholders. The implementing partners and the Commission shall analyse the conclusions and recommendations of the evaluation and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in the second quarter 2021 or in the context of the afore-mentioned wider budget support evaluation.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. Indicatively one contract for audit services shall be concluded under a framework contract in 2021.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above. The financing of additional communication and visibility measures may be covered by another measure constituting a financing decision.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and other agreements.
The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.
APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

<table>
<thead>
<tr>
<th>Intervention logic</th>
<th>Indicators</th>
<th>Baselines (incl. reference year)</th>
<th>Targets (incl. reference year)</th>
<th>Sources and means of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall objective: Impact</td>
<td>To improve government’s service delivery and promote economic growth</td>
<td>NSDP and rectangular strategy core socio-economic monitoring indicators</td>
<td>Indicators 2018</td>
<td>Targets 2019 and 2020</td>
</tr>
<tr>
<td>Specific objective(s): Outcome(s)</td>
<td>To Enhance the domestic revenue mobilization as well as the effective use of resources and alignment of expenditure with national priorities</td>
<td>Achievement of PFMRP CAP3 indicators</td>
<td>CAP3 baseline year (2018)</td>
<td>Improvement in all indicators</td>
</tr>
<tr>
<td>Induced outputs</td>
<td>Improved capacity of the MEF to lead the policy dialogue and to leverage budget resources for implementation of the PFMRP</td>
<td>Achievement of PFMRP CAP3 indicators</td>
<td>CAP3 baseline year (2018)</td>
<td>Improvement in all indicators</td>
</tr>
<tr>
<td></td>
<td>Improved planning and delivery of capacity development activities</td>
<td>Indicators of Capacity Development Plan (CDP approved in 2018)</td>
<td>CDP 2018</td>
<td>Improvement in all indicators</td>
</tr>
<tr>
<td>Direct outputs</td>
<td>Improved policy budgeting linkages</td>
<td>Budget System Reform Strategy Indicators</td>
<td>BSRS 2018 indicators</td>
<td>Improvement in all indicators</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Improved budget comprehensiveness and transparency</td>
<td>Open Budget Index (OBI) PEFA Performance Indicators (PI): PI-5 to 10 European Joint Strategy indicators on citizen budget and fiscal transfers to SNAs</td>
<td>OBI 2018 PEFA 2015 European Joint Strategy 2014-2018 and Joint Monitoring Indicators</td>
<td>Improvements in average in all scores in following OBI/PEFA updates</td>
<td>PEFA assessment (foreseen in 2019)$^{20}$</td>
</tr>
</tbody>
</table>

$^{20}$ The PEFA 2016 framework will be applied in the 2019 PEFA assessment, as compared to the 2015 assessment which is based on PEFA 2011 framework. As regards comparability between the two framework, approximately 40 percent of PEFA 2016 dimensions are either directly or indirectly comparable to dimensions in PEFA 2011. PEFA secretariat has issued a technical guideline to allow changes in PFM performance to be tracked across assessments, even those based on earlier versions of the PEFA methodology. For more information, refer to https://pefa.org/sites/default/files/Guidance%20on%20performance%20changes%20from%202011%20or%202005%20versions%20in%20PEFA%202016%20FINAL%20edited_0.pdf
| Enhanced policy-based budgeting | PEFA PI-6, PI-9, PI-11, PI-12 | PEFA 2015 | As above for the corresponding indicator. | PEFA assessment (foreseen in 2019) |
| Improved predictability and control in budget execution | PEFA PI-13 to 21 | PEFA 2015 | As above for the corresponding indicator. | PEFA assessment (foreseen in 2019) |
| Improved accounting, recording and reporting | PEFA PI-22 to 25 | PEFA 2015 | As above for the corresponding indicator. | PEFA assessment (foreseen in 2019) |
| Enhanced external scrutiny and audit of the budget | PEFA PI-26 to 28 | PEFA 2015 | As above for the corresponding indicator. | PEFA assessment (foreseen in 2019) |
| Enhanced public accountability | Open Budget Index (OBI) Corruption Perception Index (Transparency International) Control of Corruption Governance Indicator (World Bank) | OBI 2018 (20/100) CPI 2018 CCG 2018 | Improvement in all indicators | OBI, CPI and CCG updates |